



Global Economy Report

July-August 2015



Global Economy Report

The Global Economy Report is prepared in cooperation by the Macroeconomic Research Division of Banca Aletti and the Global Governance Programme of the Robert Schuman Centre for Advanced Studies of the European University Institute.

The objective of the Report is to provide an analysis of the current and expected macroeconomic and financial conditions at the global level, with also a focus on key economic areas such as Europe, the USA and ASIA.

This report has been prepared by:

- Daniele Limonta (daniele.limonta@alettibank.it)
- Massimiliano Marcellino (massimiliano.marcellino@eui.eu)
- Alessandro Stanzini (alessandro.stanzini@alettibank.it)
- Maria Eleonora Traverso (mariaeleonora.traverso@alettibank.it)

with the collaboration of:

- Alberta Martino (albertamartino@gmail.com)

Report closed on July 13, 2015

- ❖ OECD's June forecasts signal a downward revision of global growth estimates compared to the November figures (six tenths less), with expected income growth rates lower than IMF and EU Commission's May forecasts. After three years in a row with global growth at 3.3%, in 2015 it is expected to be at 3.1%, a five-year low, increasing to 3.8% in 2016.
- ❖ The downward revision in growth forecasts involved all main countries, excluding Eurozone and India. Lower growth in major economies is mostly due to lower US growth, an effect of unexpected Q1 weakness for transient causes. Emerging economies' decline, instead, has qualitative causes, mainly China's weakened growth potential and recession in Russia and Brazil. Also, a group of countries suffered from falling oil prices and the missed recovery in commodity prices, including Canada, Russia, Mexico and South Africa.
- ❖ For next year, the US should again reach the 3% level, while growth in the Eurozone and Japan should be at 2% and 1.5%. Emerging markets' growth should not pick-up, with India growing faster than China, and Russia and Brazil still in recession.

- ❖ In the USA, after the income contraction in the first quarter of the year, the economy started a modest recovery in the second. The macroeconomic data flux continues to be lower than expected, mostly due to production issues connected to weak foreign demand and the dollar's strength. However, improved evaluation of total orders and confidence offer encouraging signals. Overall, we expect growth rate limited to 2.4% in 2015, then again above potential.
- ❖ There are indications of stabilising core inflation, related to the overall improvement in economic conditions. This supports our view of a change in monetary policy in the second half of the year, with gradual increases in the interest rate, at the likely rhythm of one increase per quarter.
- ❖ In this report we present a special focus on the US economy.

- ❖ Eurozone's recovery is reaching sustainable levels. The expansionary cycle is entering a more mature phase, with more pervasive and persistent expansive impulses, although of weaker intensity. Recent data on qualitative indicators confirm the cycle's upward turn at the aggregate level and in all the major economies of the area.
- ❖ In the second quarter of 2015 we estimate Eurozone's income growth in the order of four/five tenths of a point, in line with the first quarter. Hence, we slightly increase our average growth estimates at 1.5% in 2015 and 1.9% in 2016.
- ❖ About general inflation, we expect values barely above zero for 2015, with an acceleration to about 1.2% in 2016.
- ❖ The greatest risk for these forecasts come from a worsening of the Greek crisis.

- ❖ In Japan, a strong contribution to Q1 growth came from capex, lower energy prices and expansive economic policy. Last winter the Bank of Japan's stimulus plan generated a depreciation of the yen which favoured exports. At the same time, Abe's government postponed the second sales tax hike to April 2017, reassuring businesses. From business surveys it seems that these manoeuvres' positive effects will be seen also in Q2. Overall, we expect growth at about 1.5% for both 2015 and 2016, with inflation slightly above 1%.

- ❖ The estimates for China's growth in Q2 confirm Q1's 7%, thanks to the Government's and the Central Bank's interventions to stimulate the economy and counter deflation risk. These should also ensure growth close to 7% for 2015 and 2016, likely slightly lower, and no deflation.

FORECAST SUMMARY

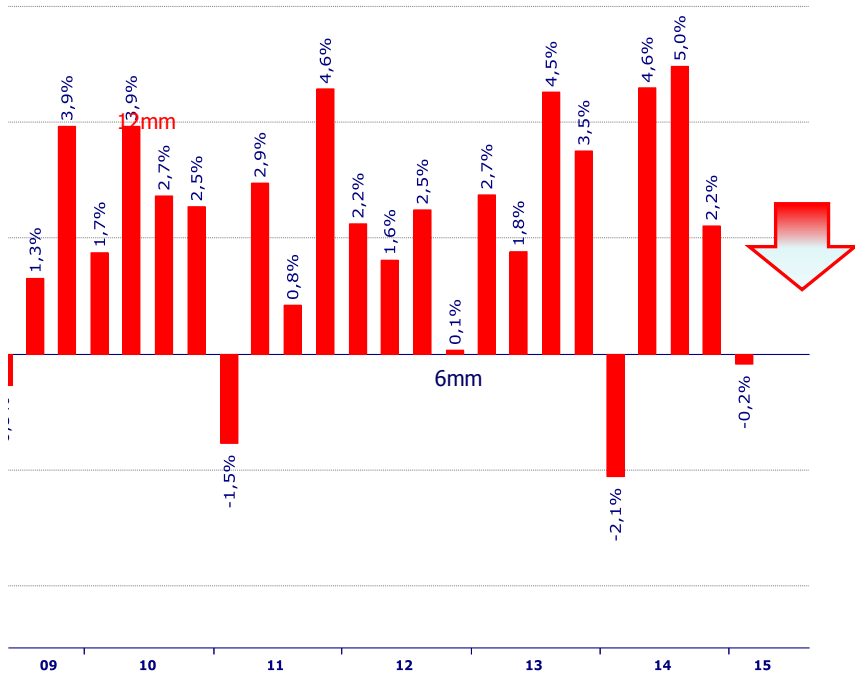
	2009	2010	2011	2012	2013	2014	2015E	2016E
GDP (%YOY)								
US	-2.8	2.5	1.6	2.3	2.2	2.4	2.4	3.0
EUROZONE	-4.5	2.0	1.6	-0.9	-0.4	0.9	1.5	1.9
GERMANY	-5.6	4.2	3.6	0.4	0.1	1.6	1.6	2.2
FRANCE	-2.9	2.0	2.1	0.2	0.7	0.2	1.2	1.8
ITALY	-5.5	1.7	0.6	-2.8	-1.7	-0.4	0.9	1.5
UK	-4.3	1.9	1.6	0.7	1.7	3.0	2.5	2.3
JAPAN	-5.5	4.7	-0.4	1.7	1.6	-0.1	1.4	1.5
BRAZIL	-0.2	7.6	4.0	1.8	2.8	0.2	-1.3	0.9
RUSSIA	-7.8	4.5	4.3	3.4	1.3	0.6	-3.5	0.5
INDIA	6.4	8.9	7.5	5.1	4.6	5.8	7.4	7.6
CHINA	9.2	10.4	9.3	7.7	7.7	7.4	6.9	6.7
AUSTRALIA	1.5	2.3	2.7	3.6	2.0	2.7	2.5	2.8
KOREA	0.7	6.5	3.7	2.3	2.9	3.3	3.0	3.5
INFLATION (%YOY)								
US	-0.3	1.6	3.2	2.1	1.5	1.6	0.3	2.2
EUROZONE	0.3	1.6	2.7	2.5	1.4	0.4	0.2	1.2
GERMANY	0.2	1.1	2.5	2.1	1.6	0.8	0.5	1.6
FRANCE	0.1	1.7	2.3	2.2	1.0	0.6	0.2	1.2
ITALY	0.8	1.6	2.9	3.3	1.3	0.2	0.2	1.0
UK	2.2	3.3	4.5	2.8	2.6	1.5	0.3	1.6
JAPAN	-1.3	-0.7	-0.3	0.0	0.4	2.7	1.1	1.2
BRAZIL	4.9	5.0	6.6	5.4	6.2	6.3	8.4	6.0
RUSSIA	11.7	6.9	8.5	5.1	6.8	7.8	15.0	7.2
INDIA	10.8	12.1	8.9	10.4	10.9	7.8	6.1	5.5
CHINA	-0.7	3.3	5.4	2.7	2.6	2.0	1.5	2.0
AUSTRALIA	1.8	2.9	3.3	1.8	2.5	2.5	1.8	2.7
KOREA	2.8	3.0	4.0	2.2	1.3	1.3	0.9	2.0
Banca Aletti Forecast								
Cons. Bloomberg (Lug 15)								
Historical Data								

The USA Outlook

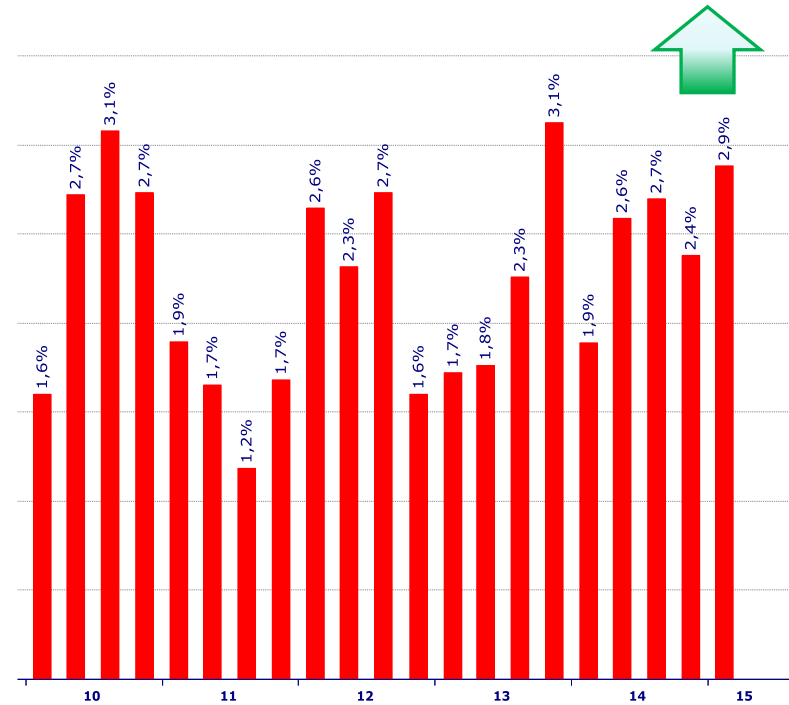
GROWTH IN Q1-15

US income in the first quarter of 2015 was contracting by two tenths of a point, the worst performance since the beginning of 2014, when income dropped more aggressively (-2.1%). The trend rate has, however, accelerated compared to the previous period, from 2.4% to 2.9%. The metrics of annualised quarterly rates and trend rates offer two opposite images of the economic scenario.

GDP (THIRD FINAL ESTIMATE)
ANNUALISED QUARTERLY RATES



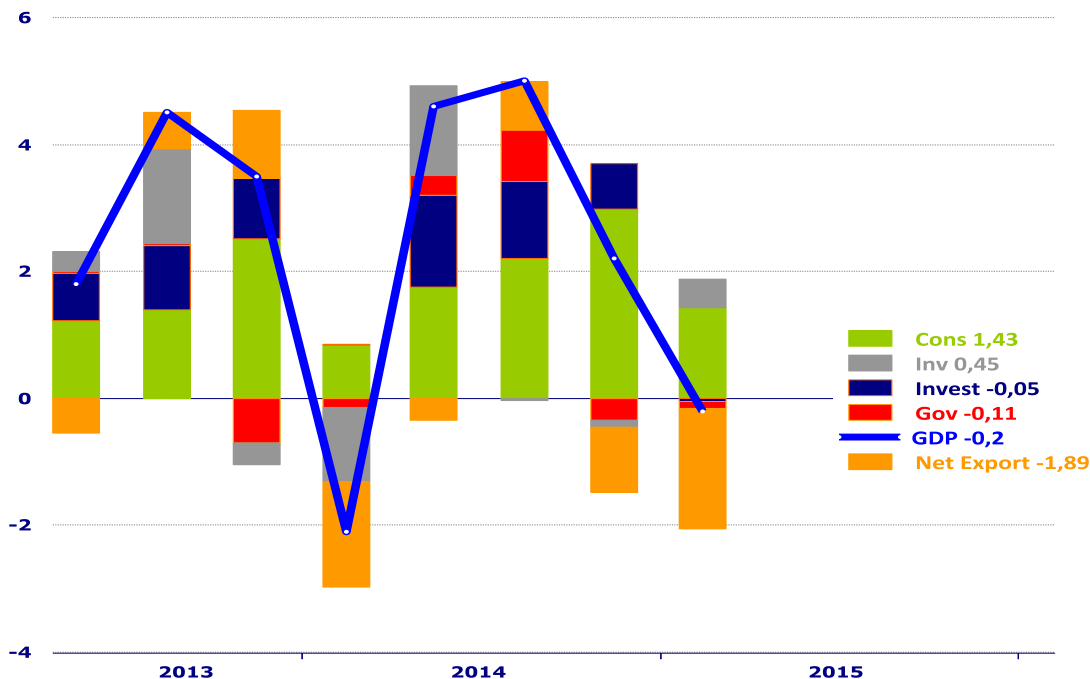
GDP (THIRD FINAL ESTIMATE)
TREND RATES



GROWTH IN Q1-15

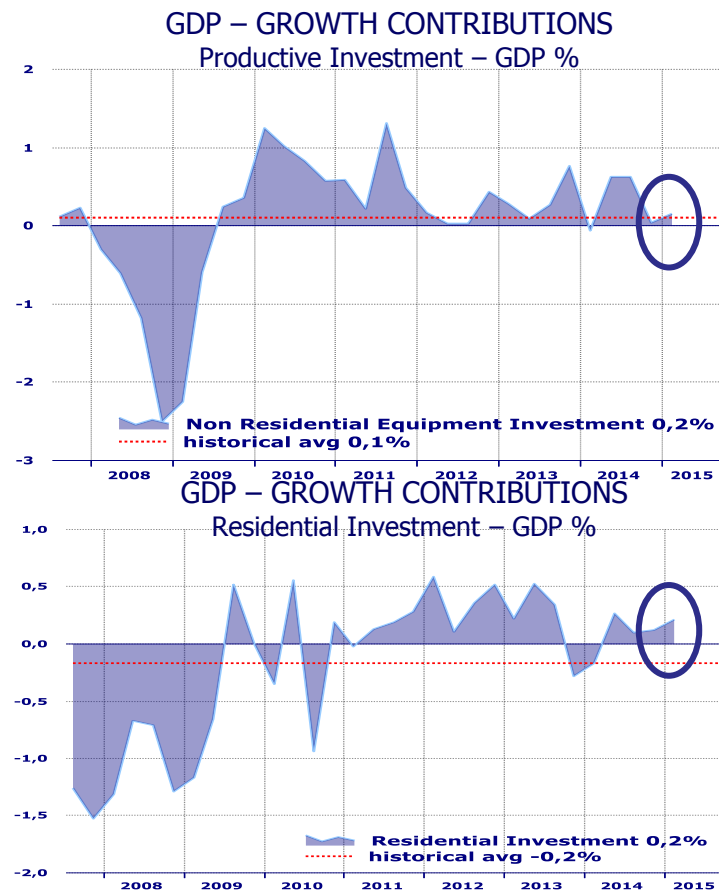
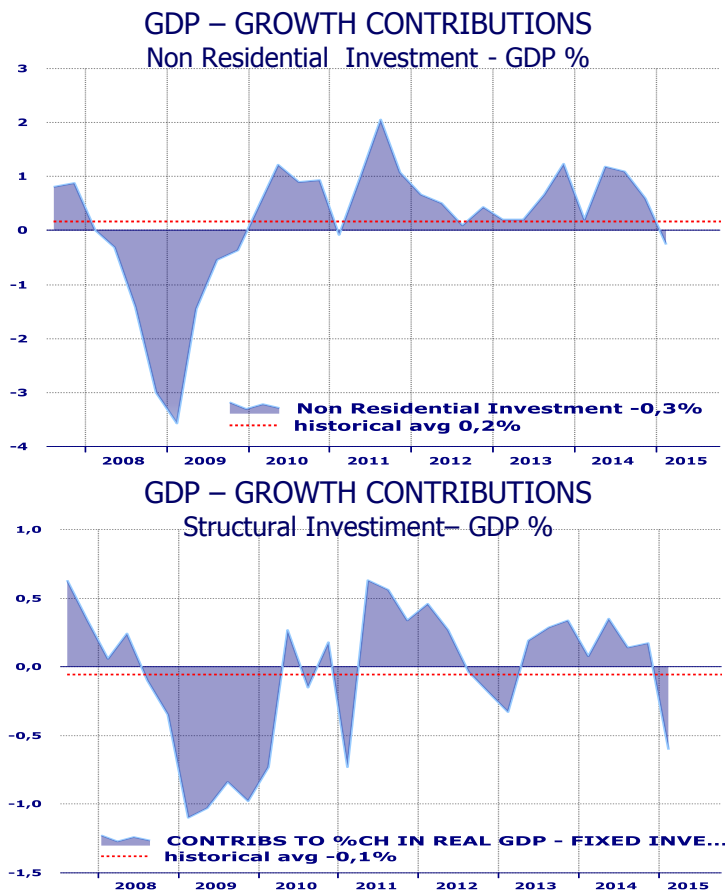
The improved dynamics of the US economy depend on a greater contribution of private consumption (1.4% from 1.2%), and nullification of capex contributions (-0.05%), while contribution from foreign trade remains the same (definitely negative, -1.9%). Overall, US income breakdown in the first quarter of the year appears improved after the recent revision. The increased push from domestic demand confirms the assumption of a temporary slowdown in the system.

GDP (THIRD FINAL ESTIMATE)
GROWTH CONTRIBUTIONS- GDP %



GROWTH IN Q1-15

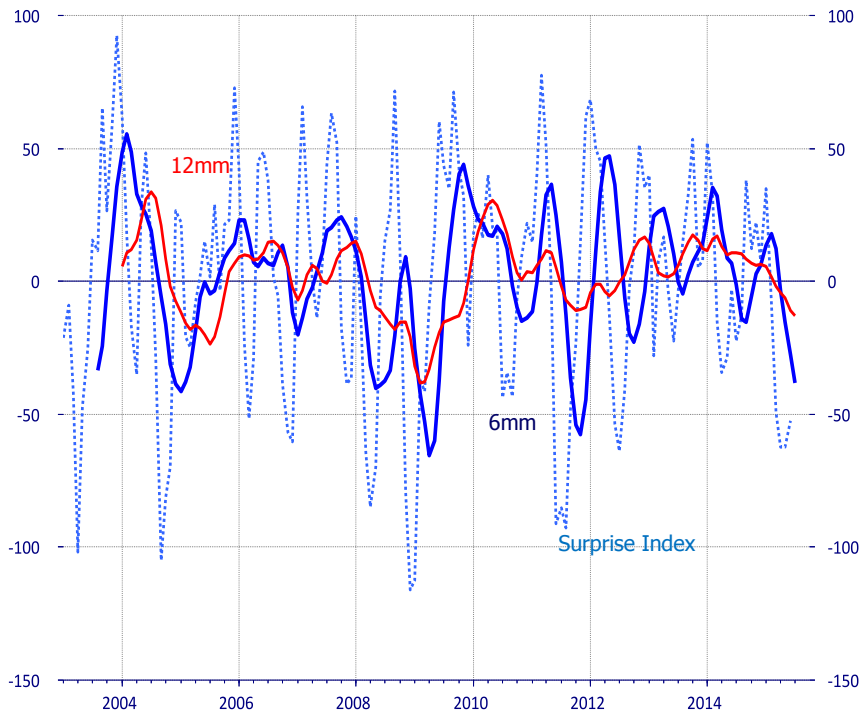
Productive and residential investment highlighted a favourable dynamic in the first quarter. The overall null contribution from fixed investments to growth in Q1 is due to contraction only in the component relative to structural investment, greatly penalised by the block in oil exports.



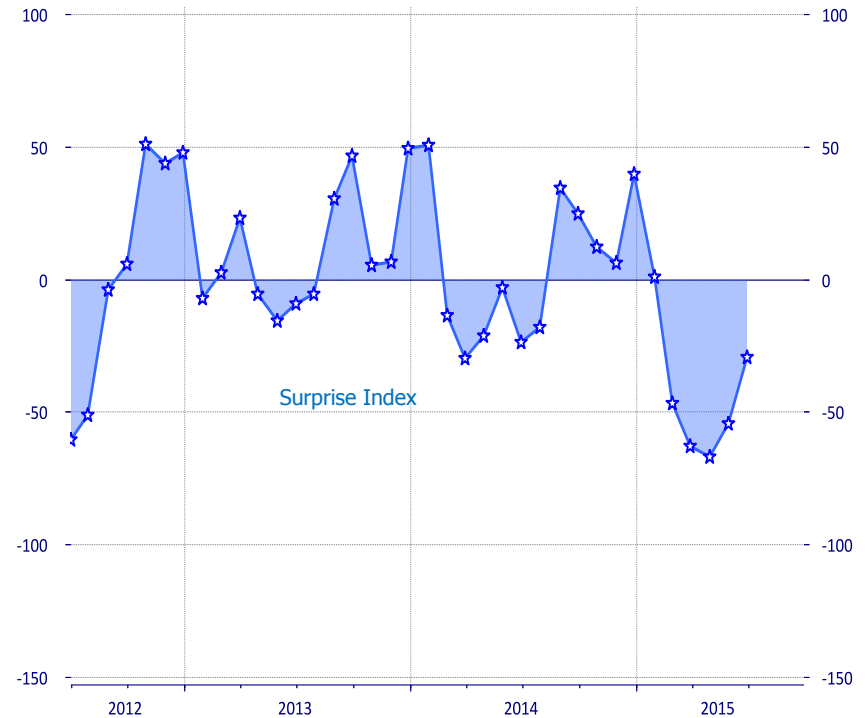
SURPRISE INDEX

In July the rebalancing of macroeconomic statistics compared to consensus forecasts goes on. The surprise index thus registers the best level over the past five months. The index's persistence in negative territory, however, shows that the data flow is rather weak.

SURPRISES – LONG TERM



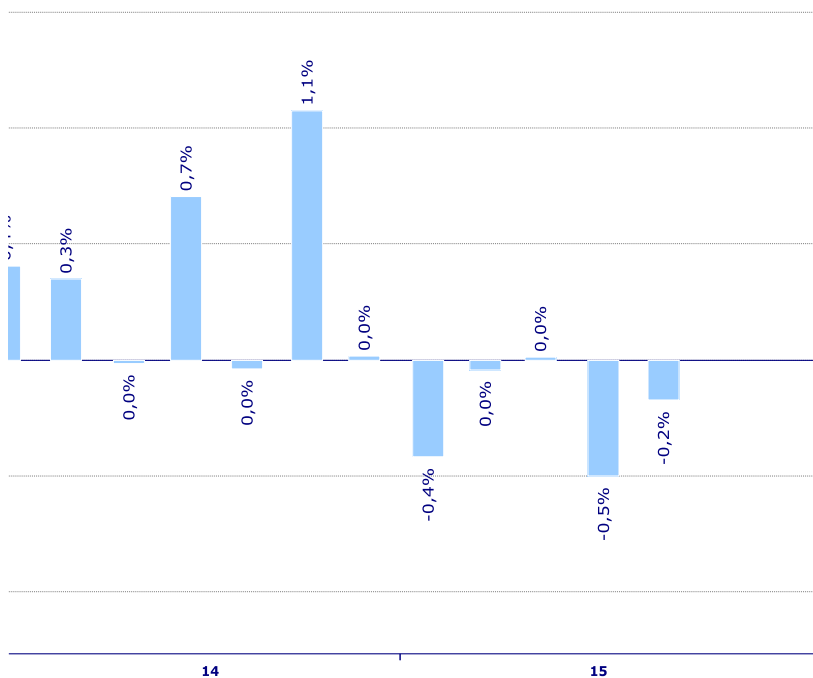
SURPRISES – SHORT TERM



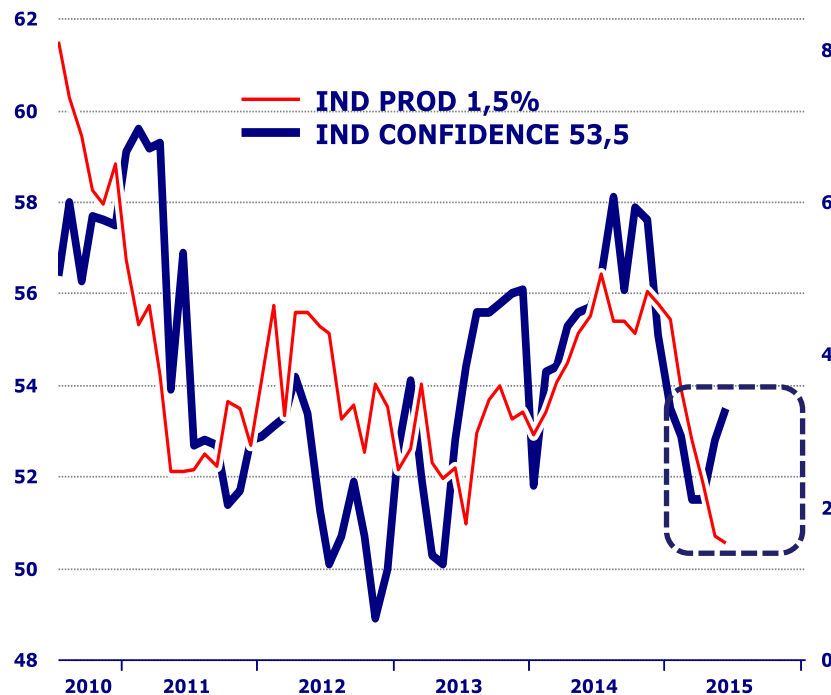
INDUSTRIAL PRODUCTION

May data indicate a new decrease in industrial activity in the second quarter, after the drop seen in April. Production declined by -0.2%, after the -0.5% decrease in the prior month, thus resulting in a lower figure than expected (+0.2%) for the quarter. For the fifth month in a row production either decreases or doesn't grow. Now at 1.4%, trend industrial production growth rate is at its lowest since over five years (February 2010).

INDUSTRIAL PRODUCTION
Changes



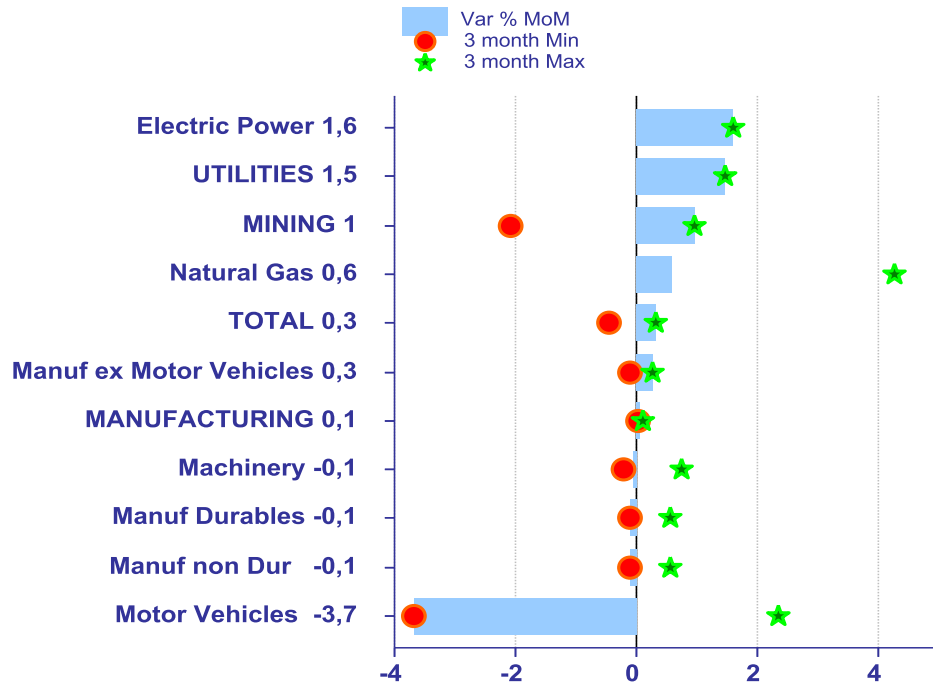
PRODUCTION AND CONFIDENCE



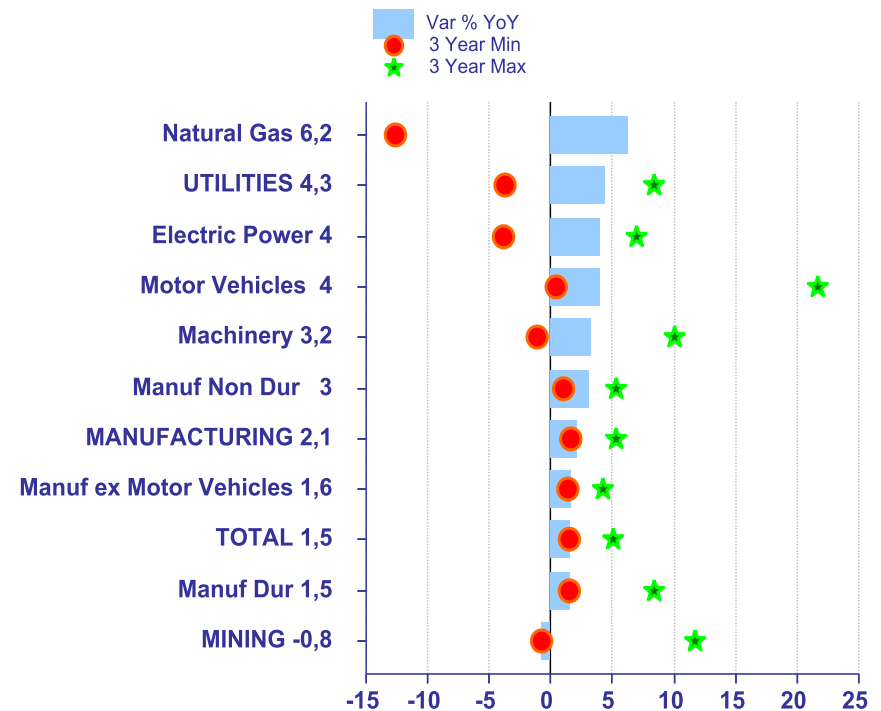
INDUSTRIAL PRODUCTION

Production is influenced by mining's negative trend (due to oil prices' fall), but also manufacturing itself suffers from a strong dollar. In any case, the brilliant trend in the auto and machinery compartment bears witness to a productive core that can boost industrial activity's recovery as forecasted by leading indicators.

PRODUCTION: by industrial segment



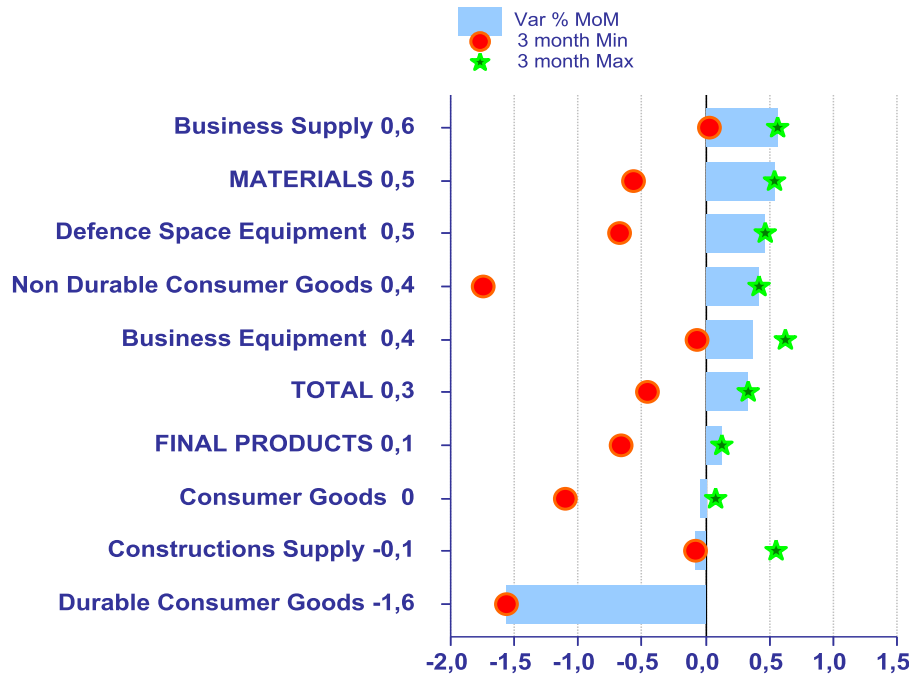
PRODUCTION: by industrial segment



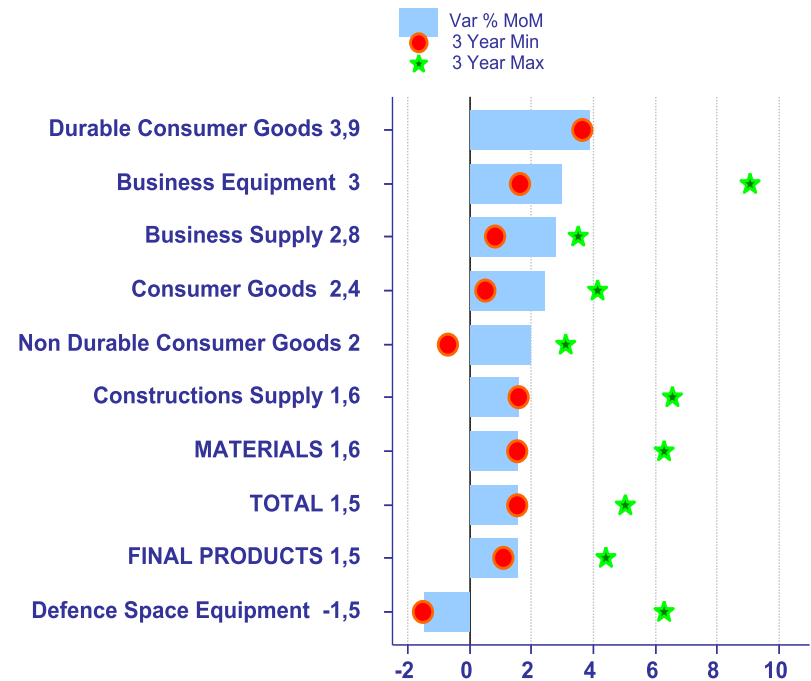
INDUSTRIAL PRODUCTION

From products' perspective, weakness seems widespread; many components are at a three year low. However, also this kind of segmentation, based on product type, signals the presence of a robust productive core, i.e. durable consumer goods, that will trigger industrial recovery.

PRODUCTION: by product compartment

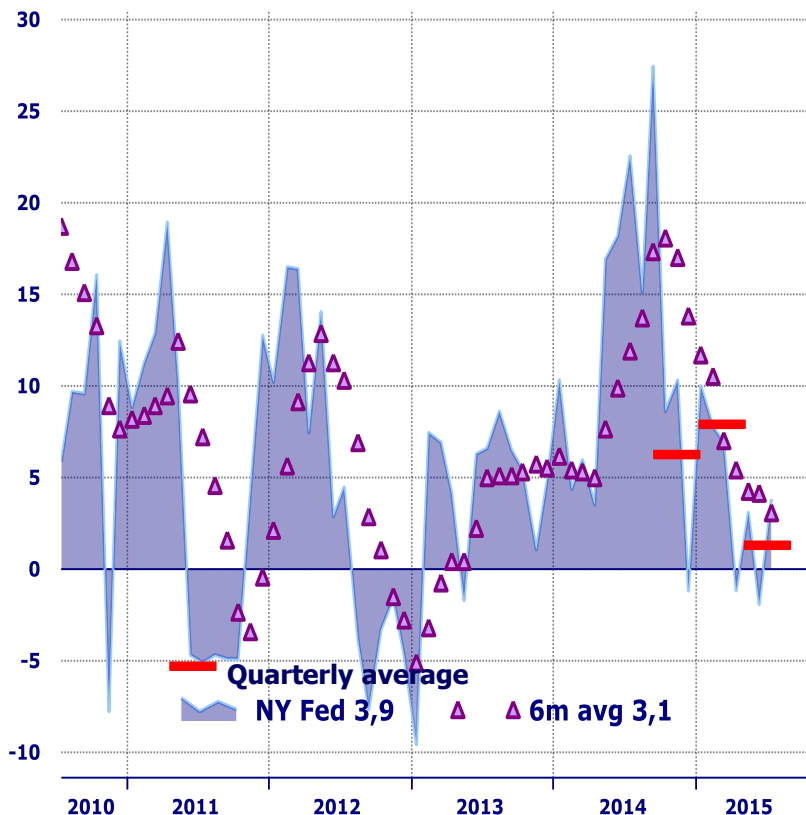


PRODUCTION: by product compartment

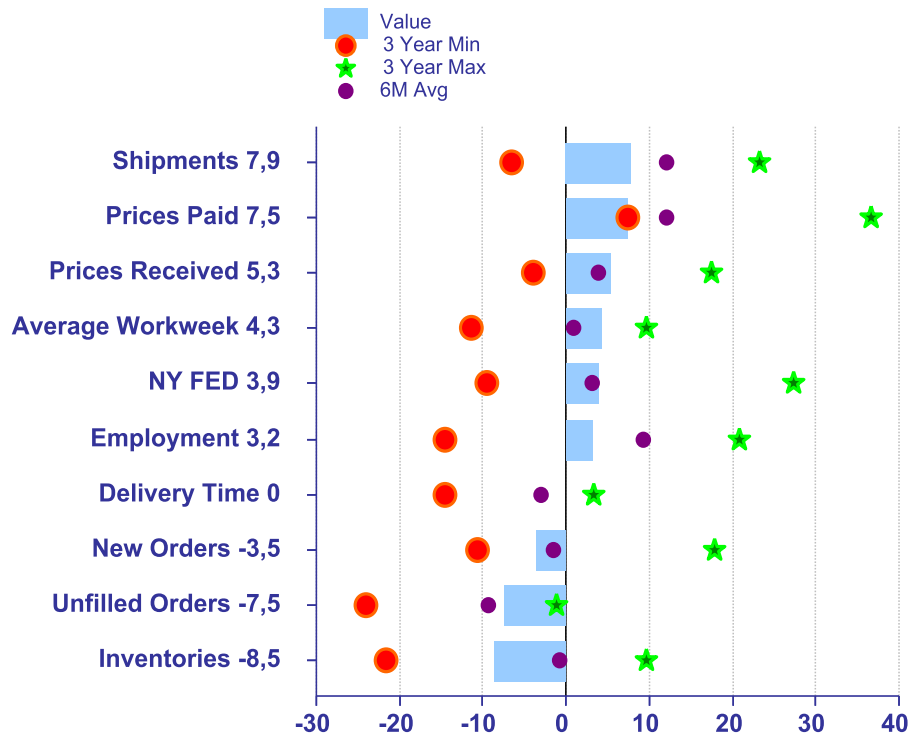


The declining evolution of the New York Fed's Confidence Index highlights the industrial sector's continuing suffering – still at the end of Q2 – the depressive effects of a strong dollar and low energy prices; recovery is far from being solid and persistent.

NY FED SURVEY

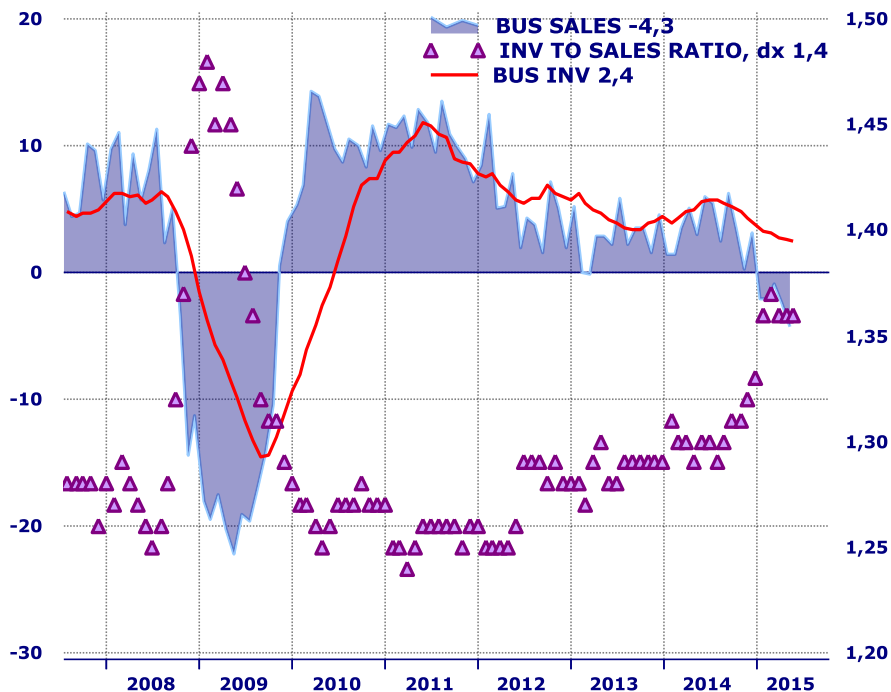


NY FED SURVEY – DETAILS

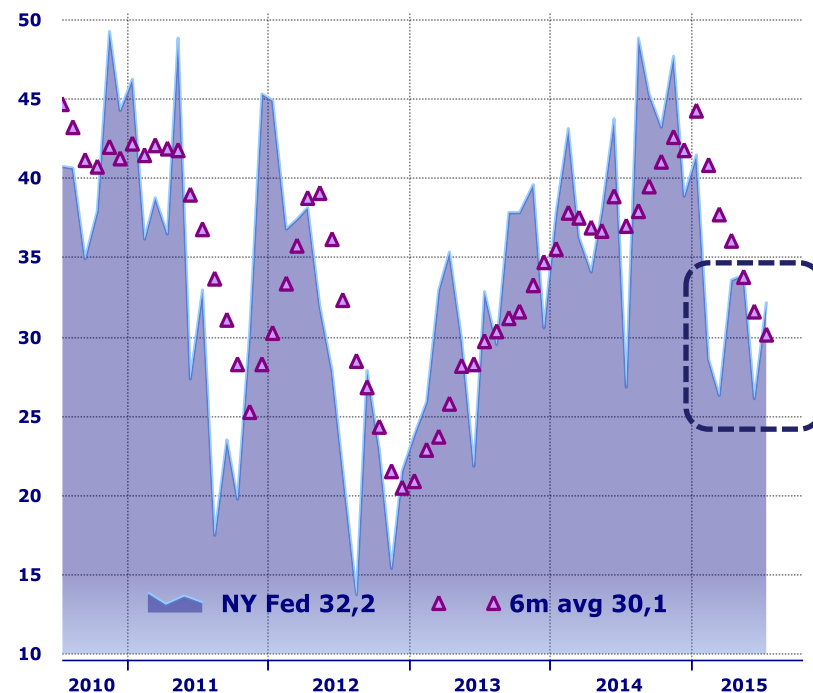


Our evaluation on industry's orders trend had a downturn, returning to its lows, abandoned only the previous month. The stock/sales ratio remains high, indicating a high stock level, that binds industrial activity's potential growth in the central part of the year.

BUSINESS SALES AND STOCK

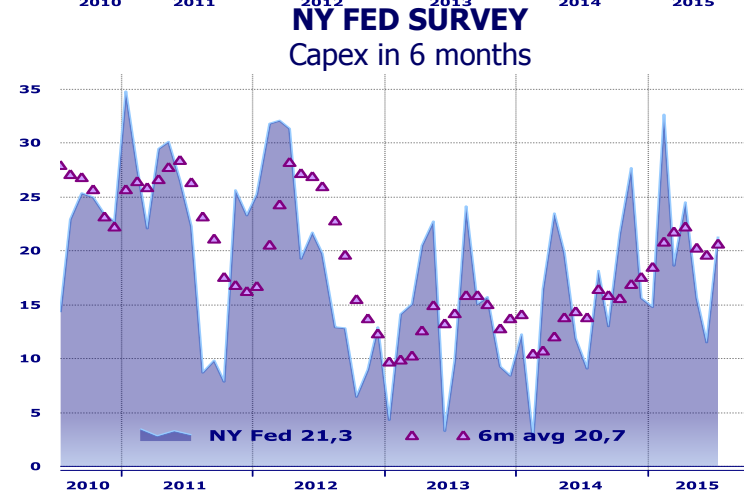
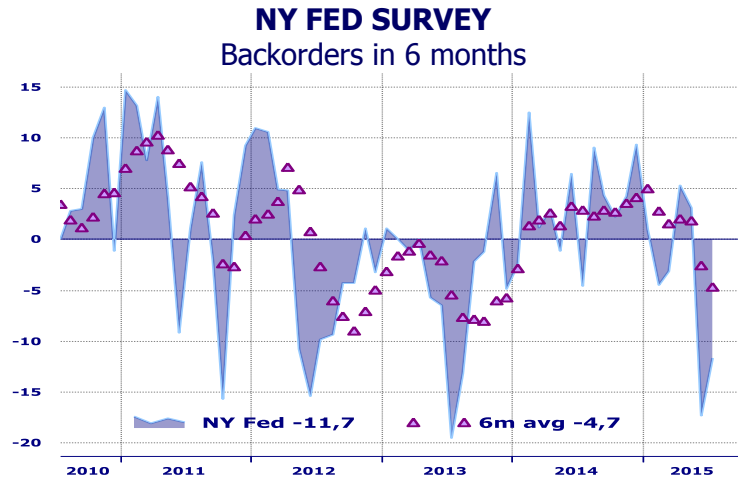
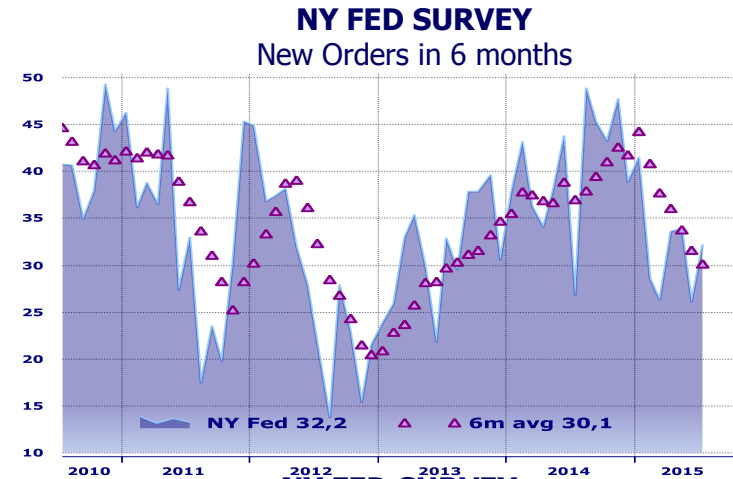
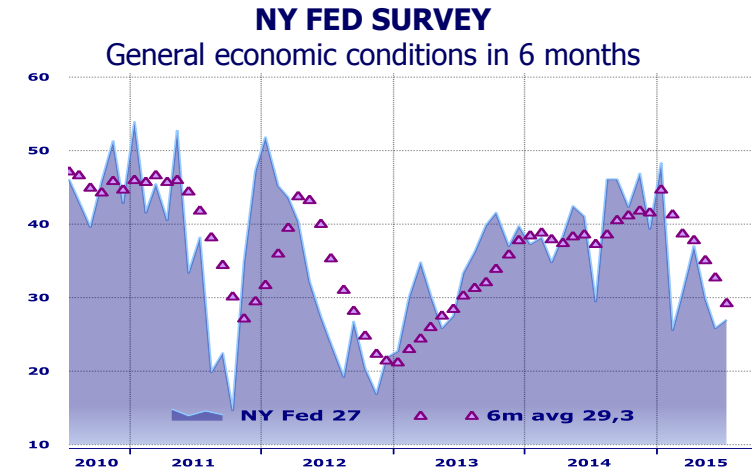


NY EMPIRE SURVEY: NEW ORDERS



BUSINESS CONFIDENCE

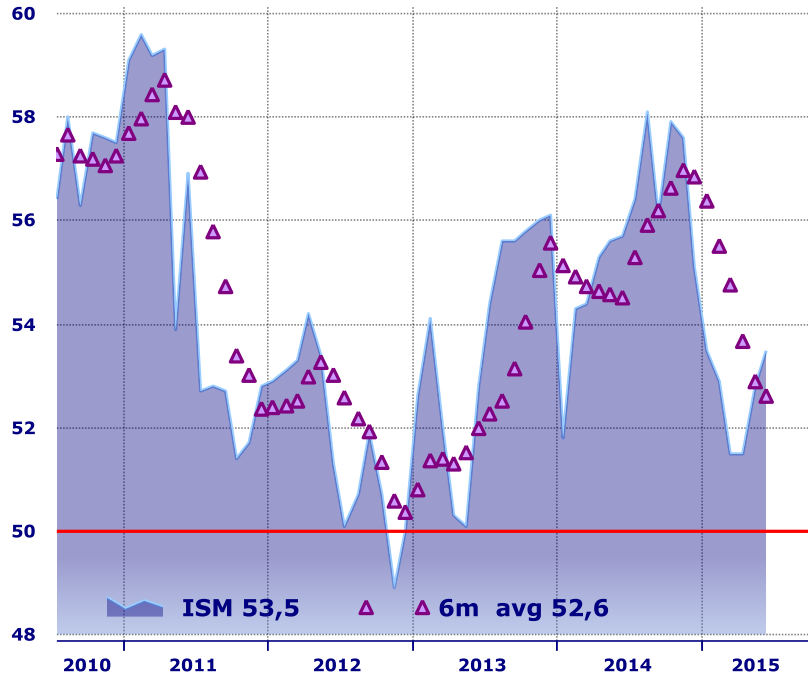
The part of the NY Fed's survey on the economy's 6-month perspective points to a widespread worsening of the scenario on the industrial front.



BUSINESS CONFIDENCE

The ISM survey indicates a five-month high in industrial activity in June. General Index was at 53.5 (up from 52.8), slightly above consensus: it's a peak since January, however the level is greatly lower than 2014's average (55.7), thus signalling a recovery in industrial activity, though very modest. Thus, industry's pace remains definitely lower than the past's vigorous rhythms.

MANUFACTURING ISM

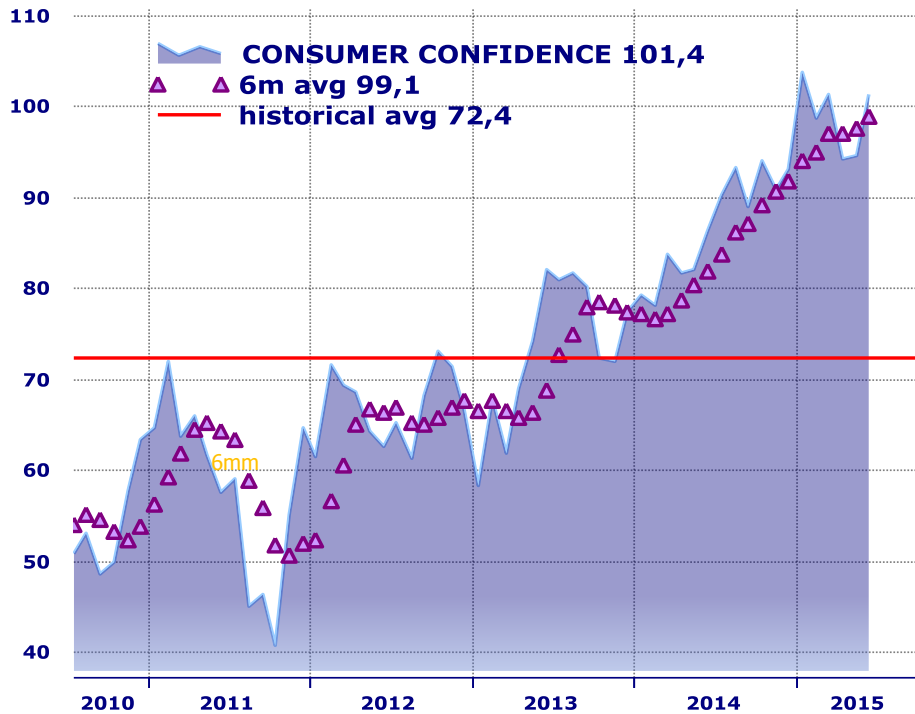


MANUFACTURING ISM – DETAILS

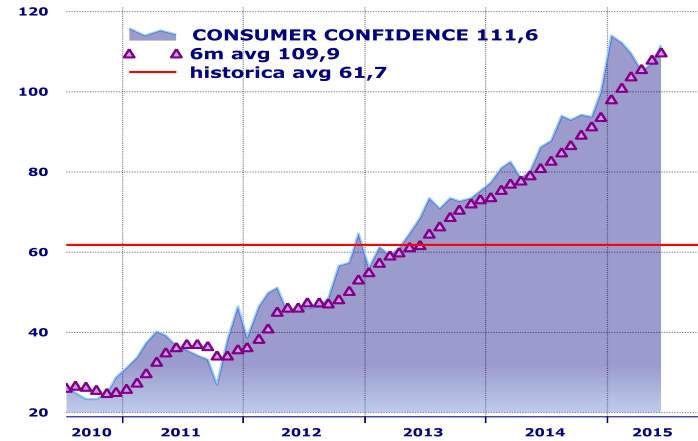


Due to the simultaneous improvement on expectations and current conditions, according to the Conference Board, household's confidence significantly improved in June (general index at 101.4 from 94.6 in May), close to the area of absolute highs.

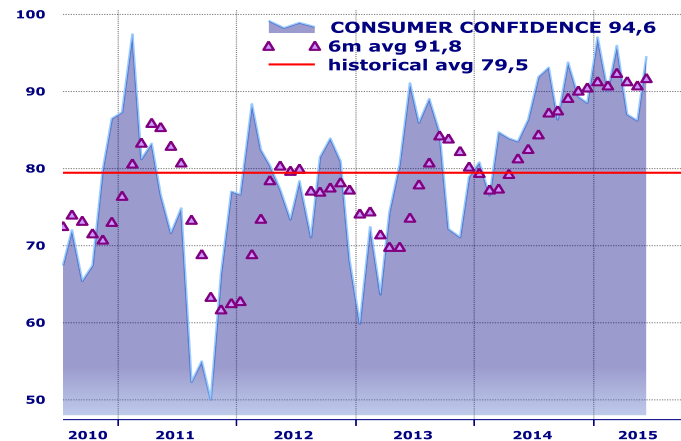
CONFERENCE BOARD



CONFERENCE BOARD: CURRENT CONDITIONS

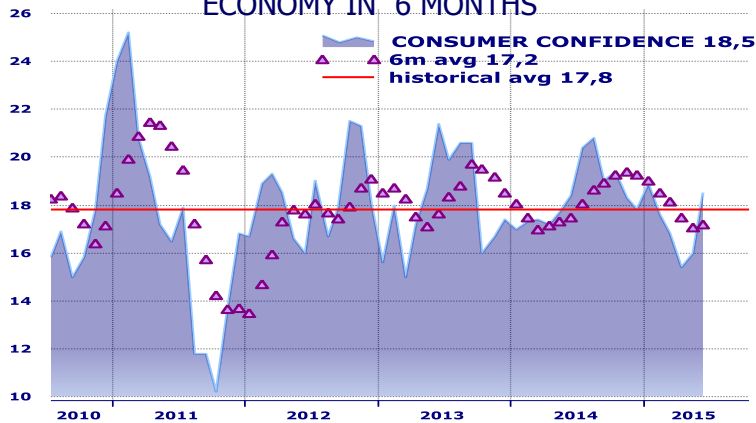


CONFERENCE BOARD : EXPECTATIONS

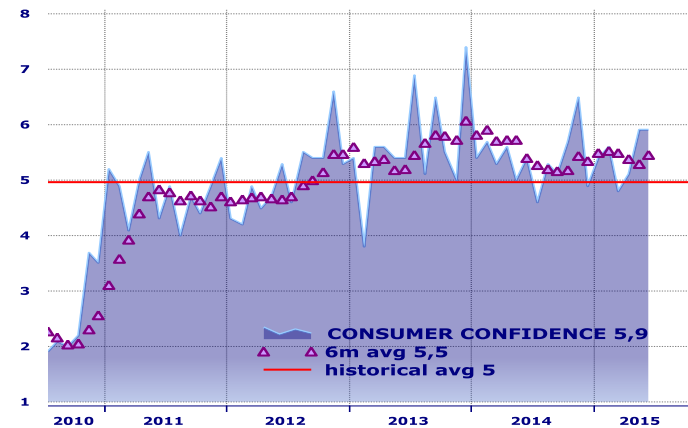


According to households, macroeconomic perspectives have sensibly improved in June.

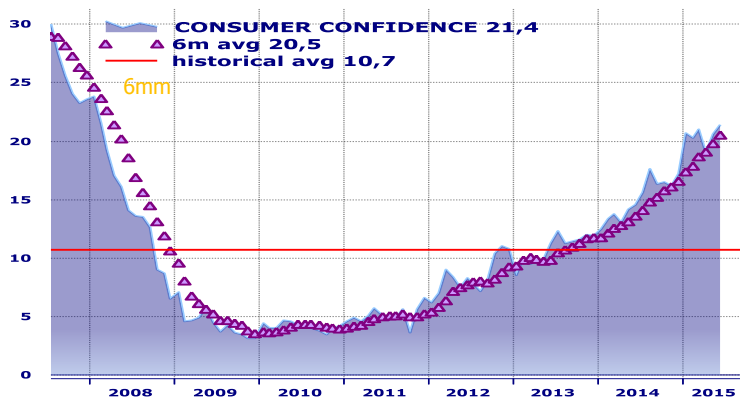
CONFERENCE BOARD: EXPECTATIONS ON THE ECONOMY IN 6 MONTHS



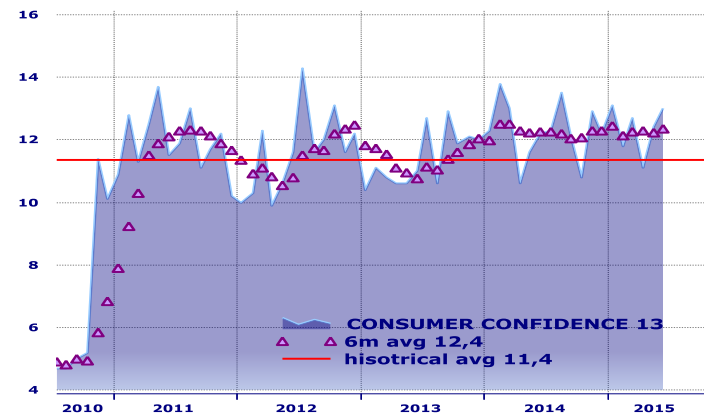
CONFERENCE BOARD: HOME BUYING INTENTIONS



CONFERENCE BOARD: JOBS PLENTIFUL



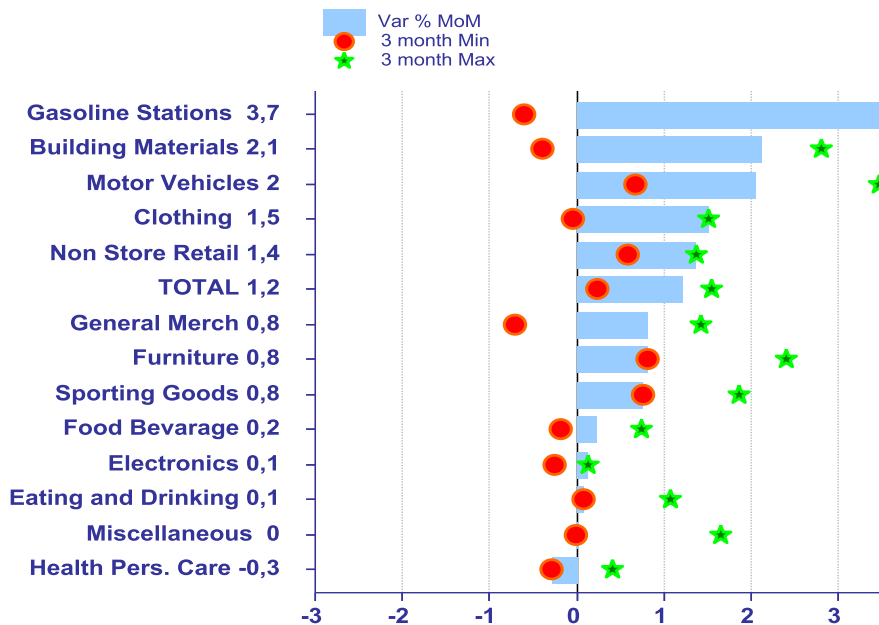
CONFERENCE BOARD : CAR BUYING INTENTIONS



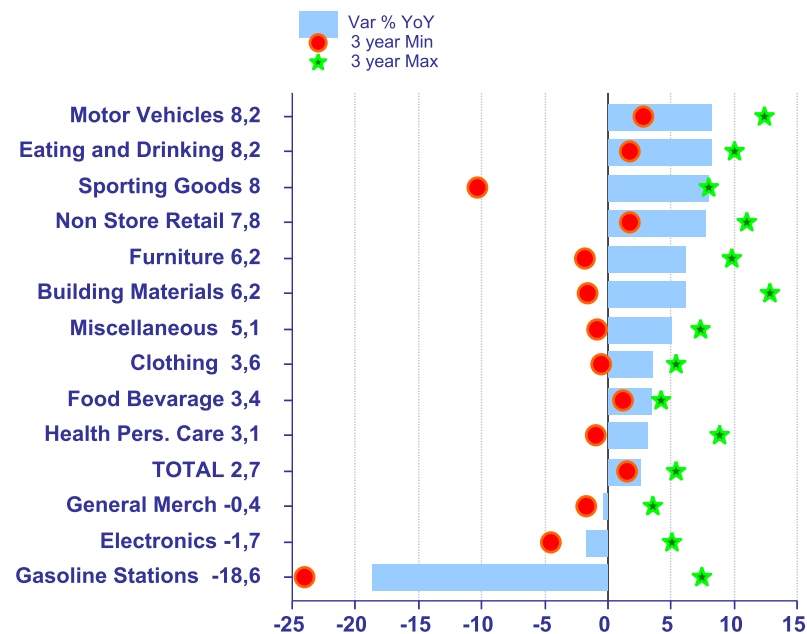
HOUSEHOLDS' SPENDING

Retail sales registered a significant rebound in May, that definitely increased Q2's level of private consumption. The general index registered a 1.2% increase, a strong increase from April's +0.2% (upward revised from zero). The main progress factors were gasoline stations, building materials and motor vehicles, but increases are noticeable across a wide array of components.

RETAIL SALES- MONTHLY CHANGES



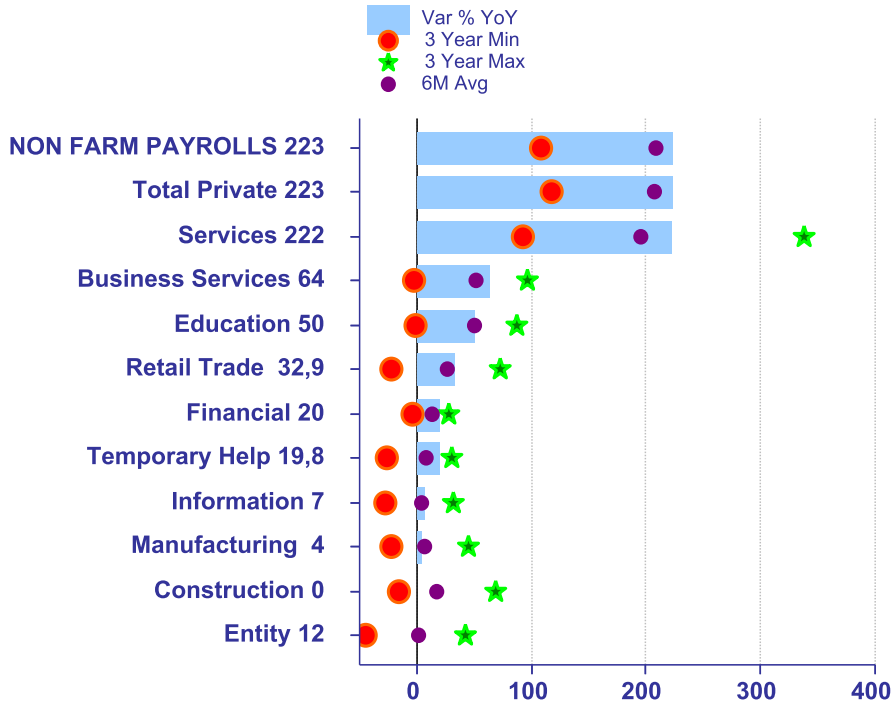
RETAIL SALES – YEARLY CHANGES



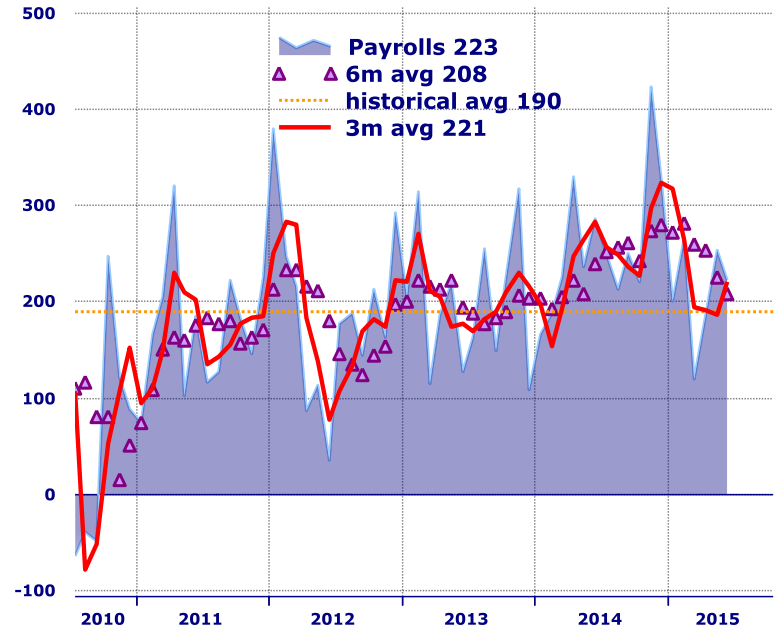
JOB MARKET

The June reports on the job market, slightly below consensus, signalled however widespread strength in the market, consistent with higher economic activity levels in the second semester. The number of new jobs was at 223 k, 10 k less than expected, but with a uniformly positive contribution from all main sectors. We must also consider downward revisions on previous statistics, for a total of 60 k units.

PAYROLLS: BY SECTOR



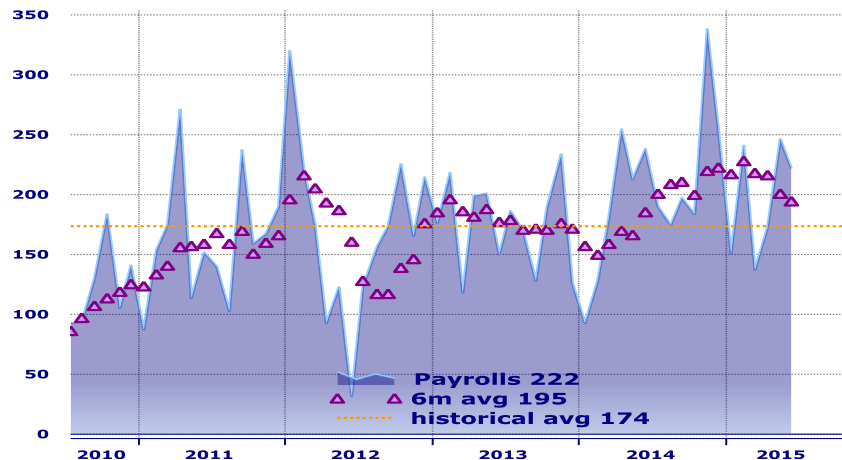
PAYROLLS: TOTAL



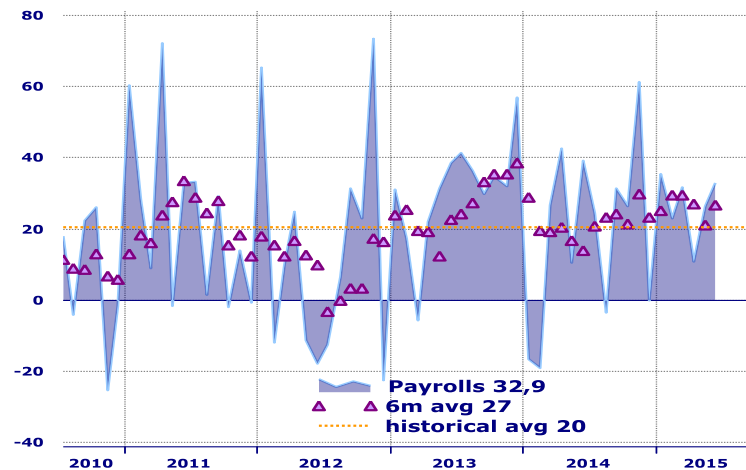
JOB MARKET

Among services, the flux of new jobs' creation remains definitely good.

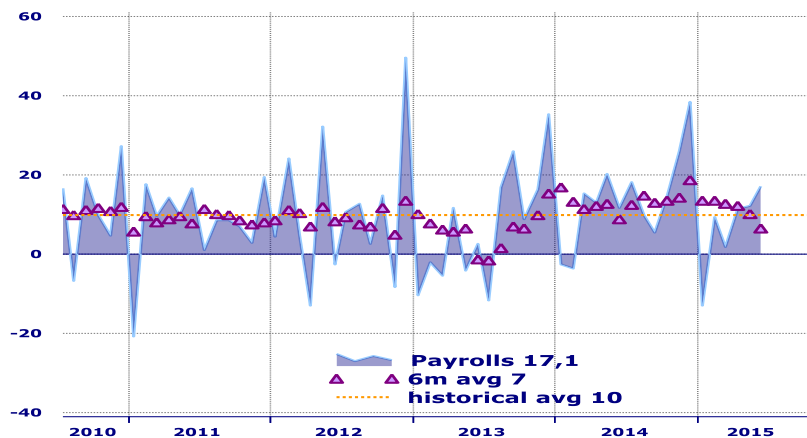
PAYROLLS SERVICES - TOTAL



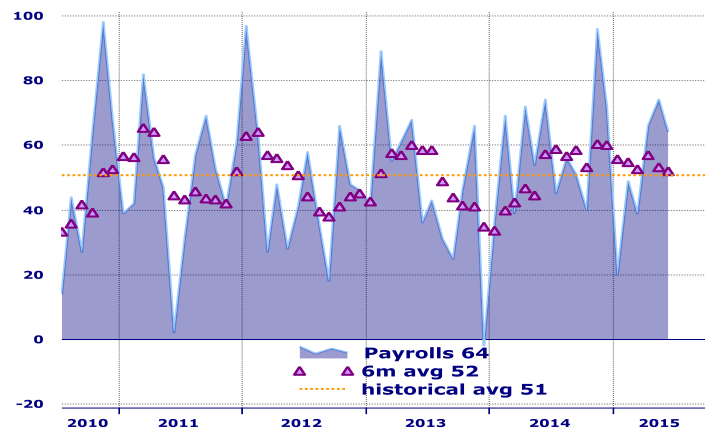
PAYROLLS SERVICES – RETAIL SALES



PAYROLLS SERVICES - TRASPORTATION



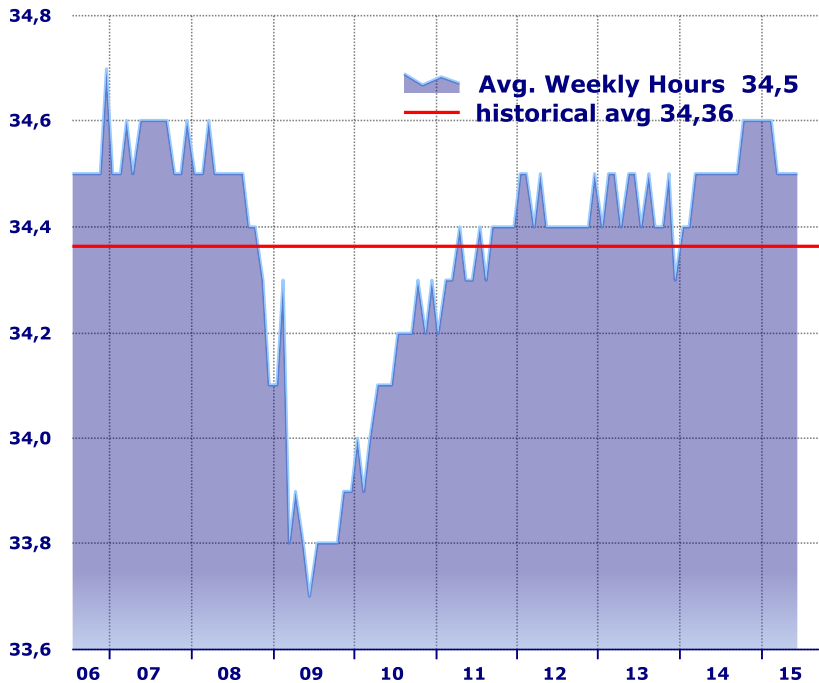
PAYROLLS SERVICES – PROFESSIONAL SERVICES



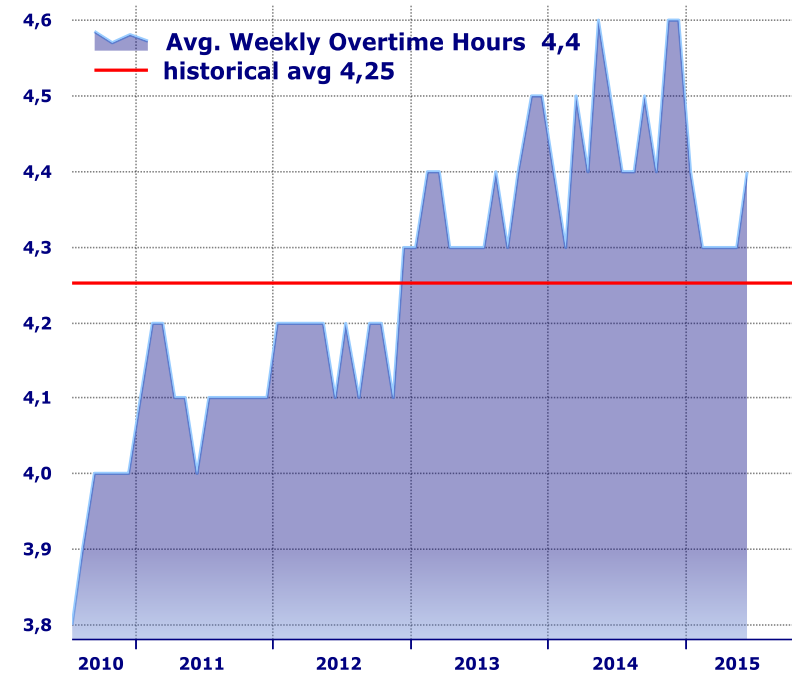
JOB MARKET

The number of hours worked remained flat on the previous month, while overtime hours registered a slight growth.

REGULAR HOURS WORK

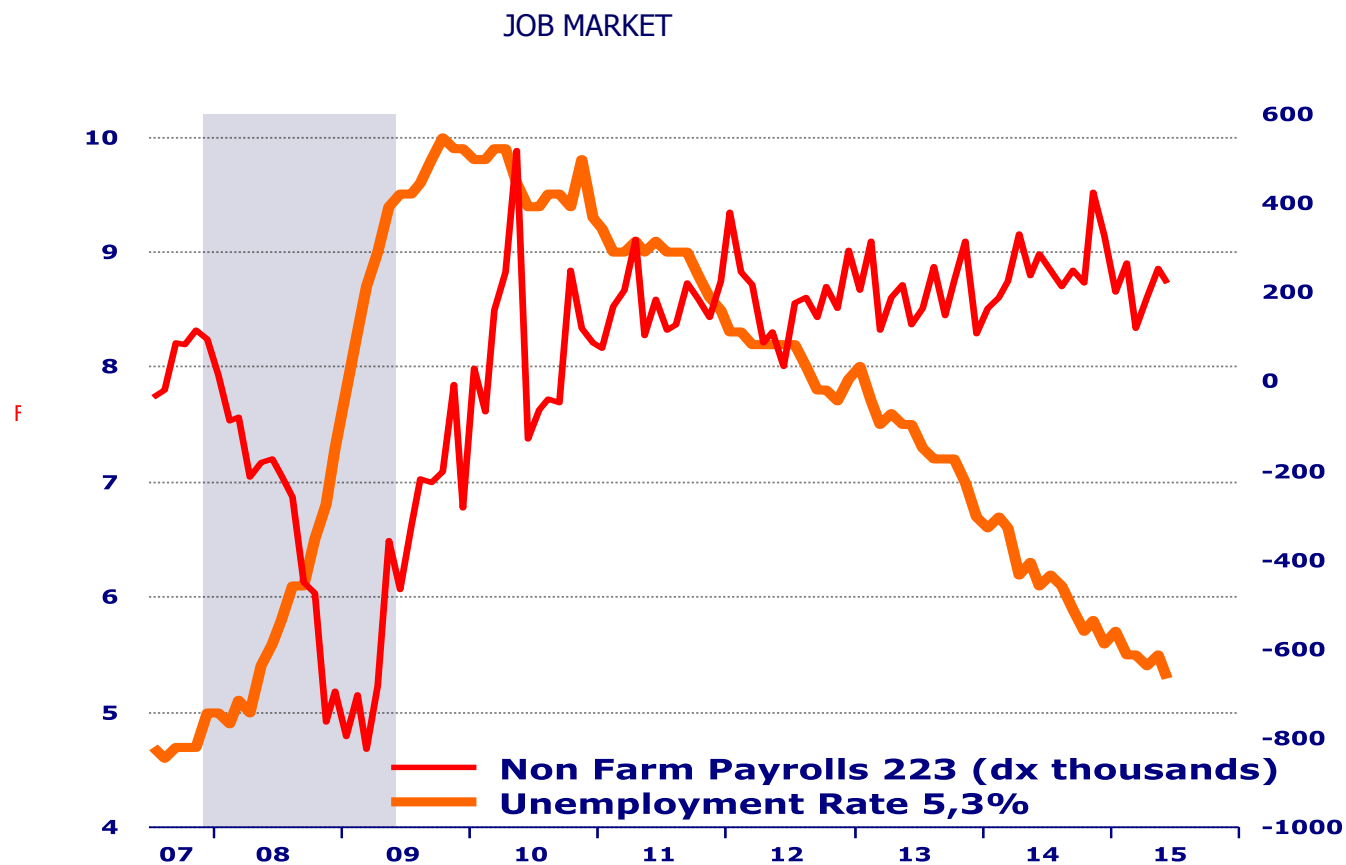


OVERTIME HOURS WORK



JOB MARKET

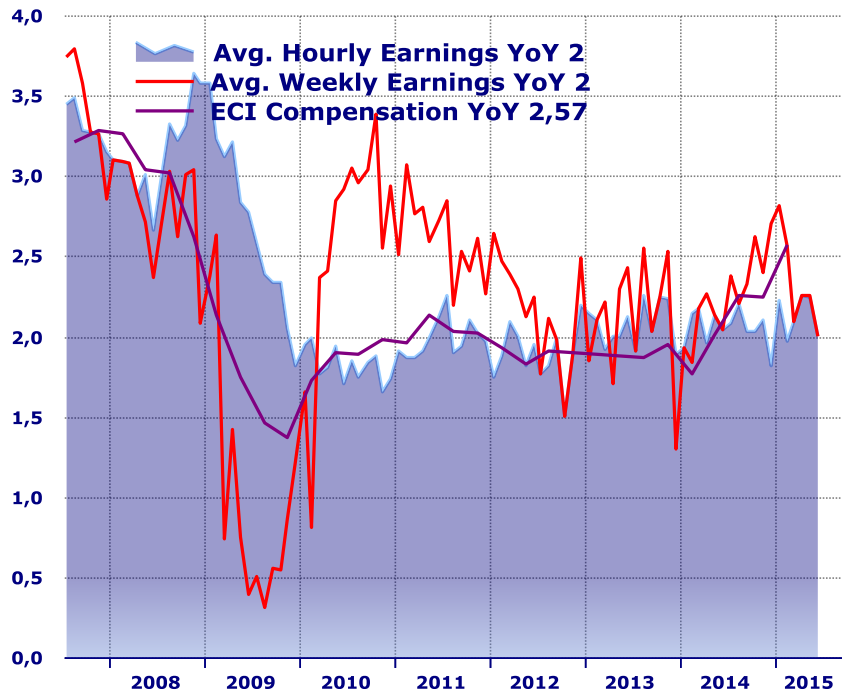
Unemployment rate is at a new low at 5.3%, coupled, though, with a decrease in participation rate (62.6% da 62.9%).



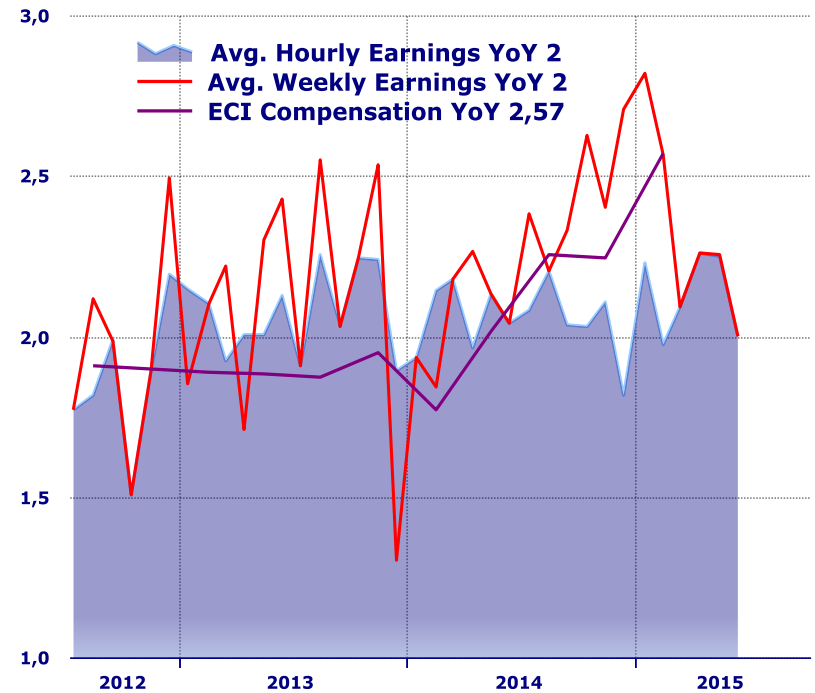
LABOUR COST

In the first quarter of 2015, the labour cost index is at its highest since 2008, while weekly and hourly earnings' dynamics continue to signal a salary pressure absence.

LABOUR COSTS: LONG TERM



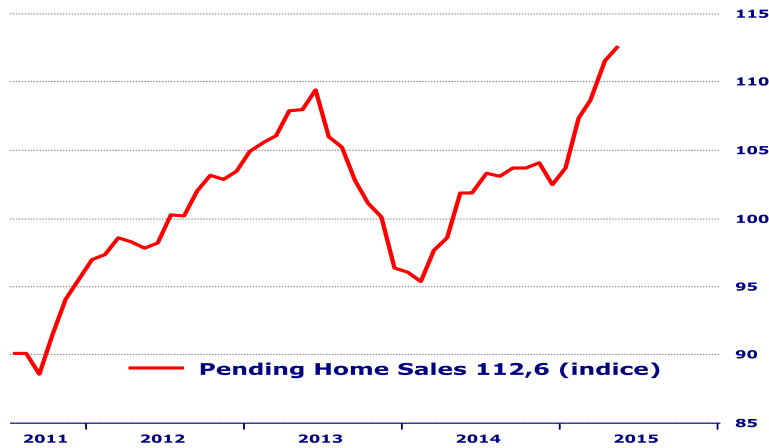
LABOUR COSTS: SHORT TERM



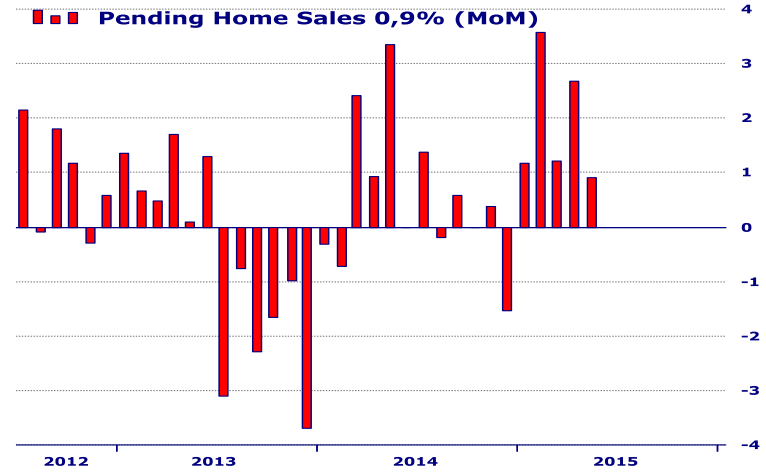
REAL ESTATE MARKET

Residential homes' market is in a rapidly accelerating phase.

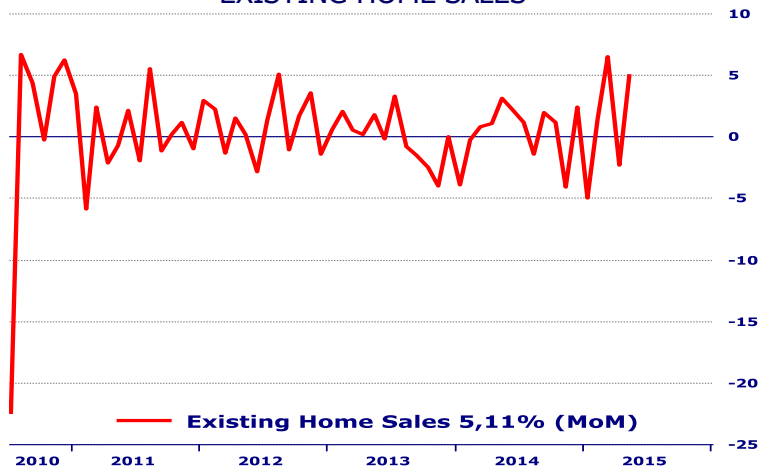
PENDING HOME SALES



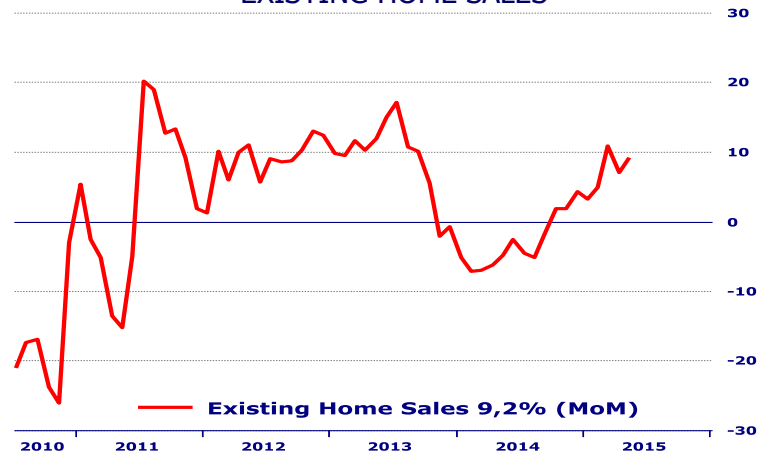
PENDING HOME SALES



EXISTING HOME SALES



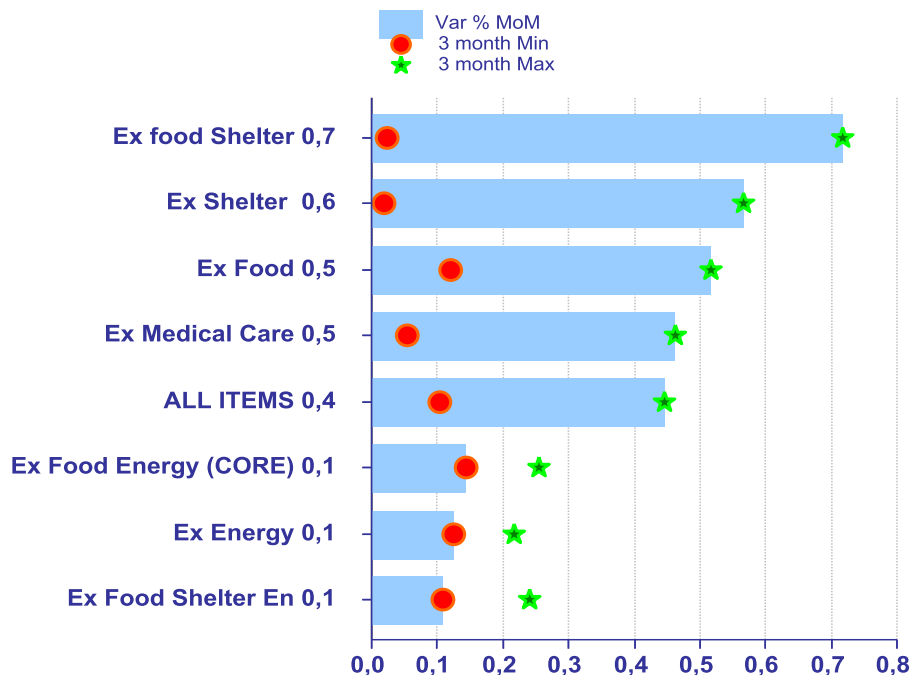
EXISTING HOME SALES



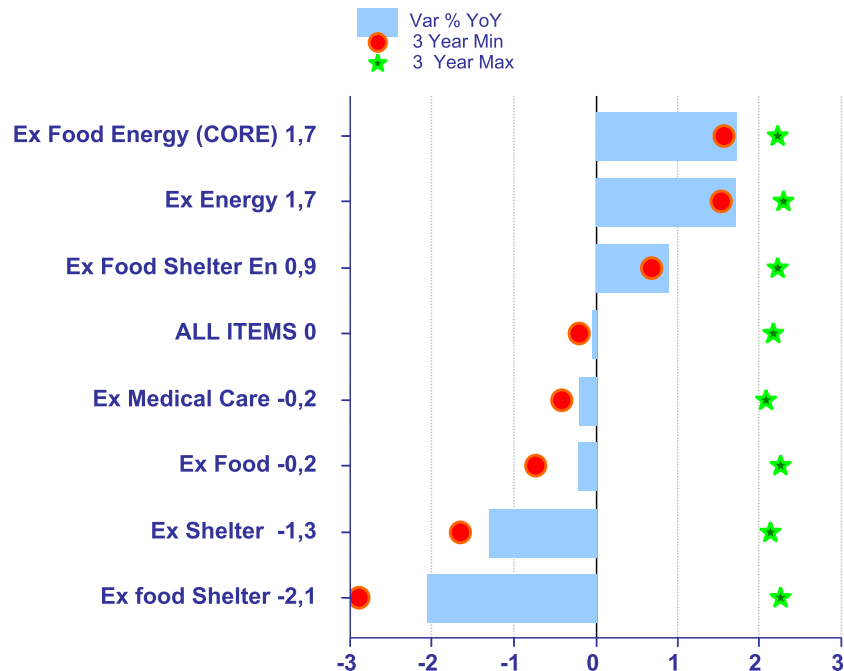
INFLATION

In May, widespread upward pressures increased by two tenths the general inflation rate (+0.4% annualised monthly changes), bringing it back to zero, after two consecutive surveys in negative territory.

INFLATION MEASURES
Annualised monthly changes



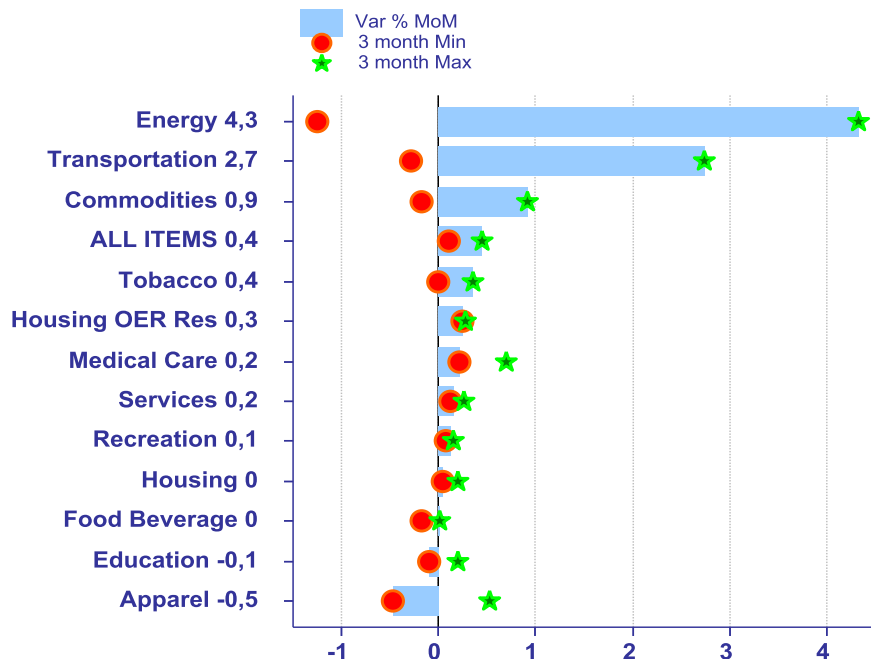
INFLATION MEASURES
YoY Changes



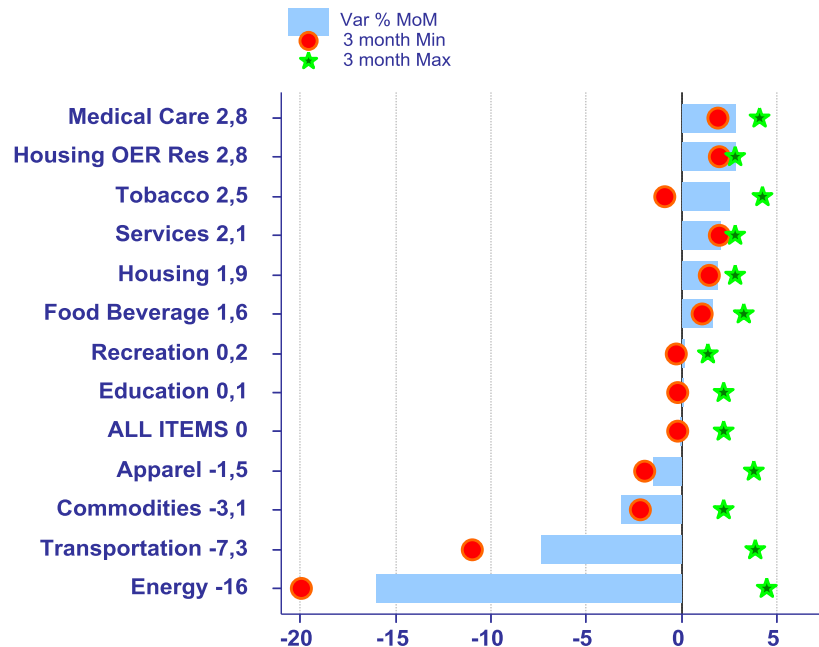
INFLATION

Upturning the dominant scheme of the past months, increase in consumer prices was mainly due to the effect of energy prices. The energy component registered a strong increase at 4.3%, reflected on transportation and raw materials. The core component signalled a more contained increase, only +0.1% (one fourth of the increase in the general index), as the persistent upward pressures on housing were associated with decreases in apparel and education.

INFLAZIONE PER SETTORE
Variazioni Congiunturali



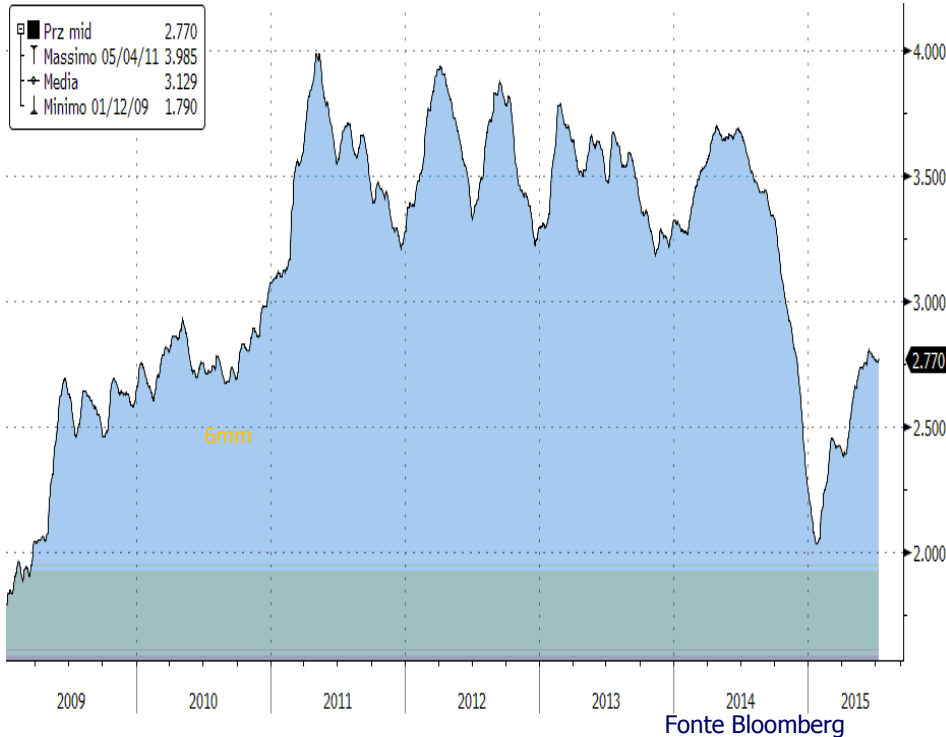
INFLATION BY SECTOR
Trend Changes



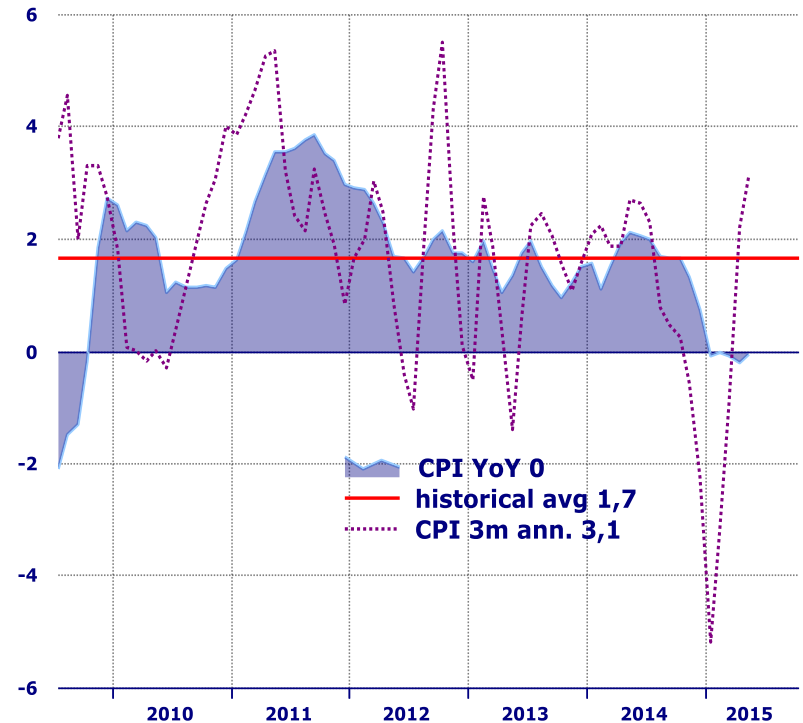
INFLATION

General inflation is again under overtly upward pressures (maximum intensity since 2012), that let us presume an increase in the future.

GAS PRICES AT THE PUMP
Average Daily Data; USD



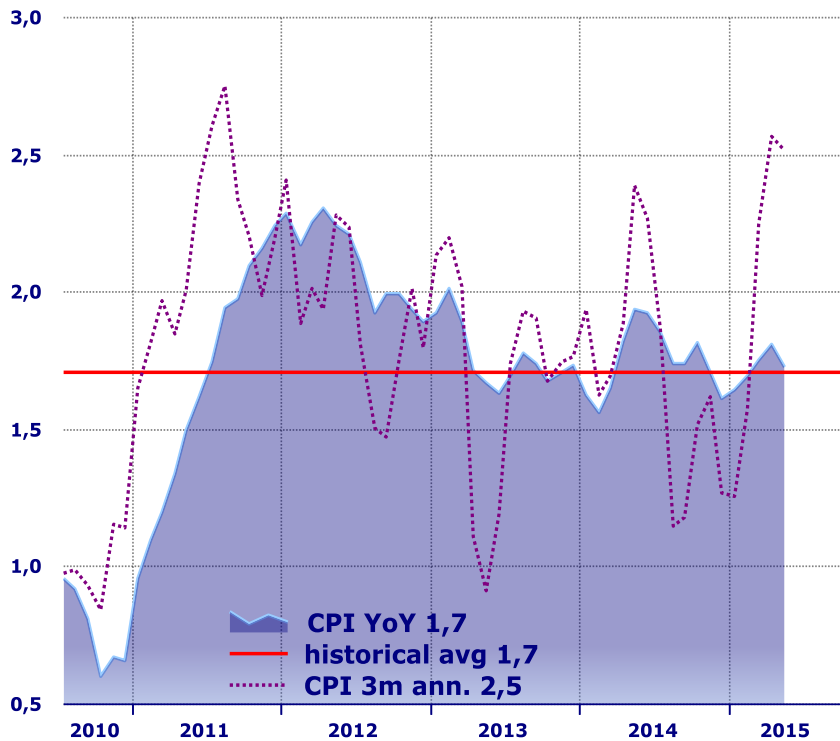
HEADLINE INFLATION



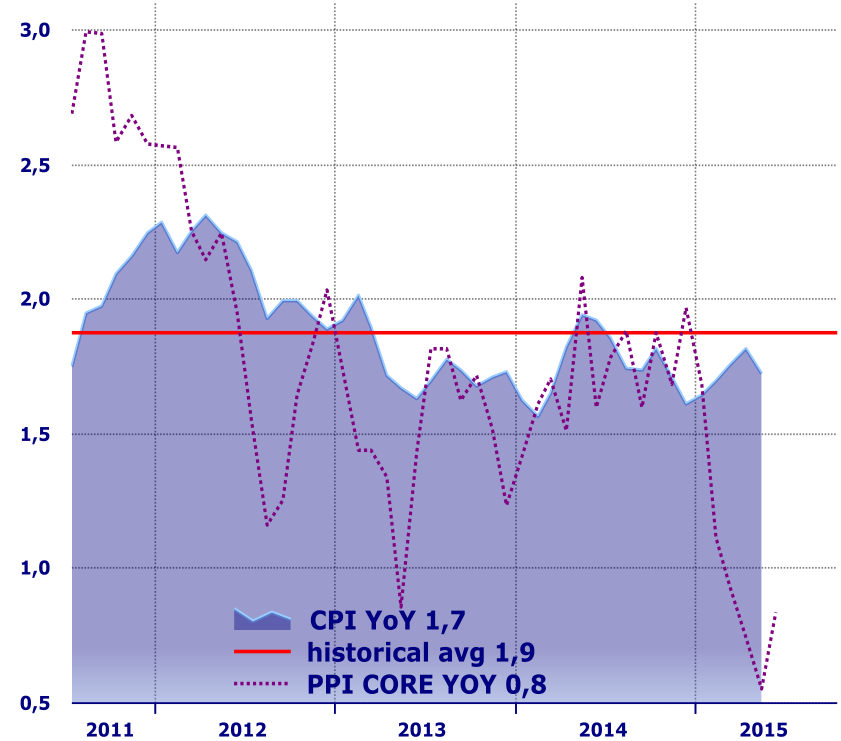
INFLATION

At the core compartment level, reflationary impulses are also confirmed.

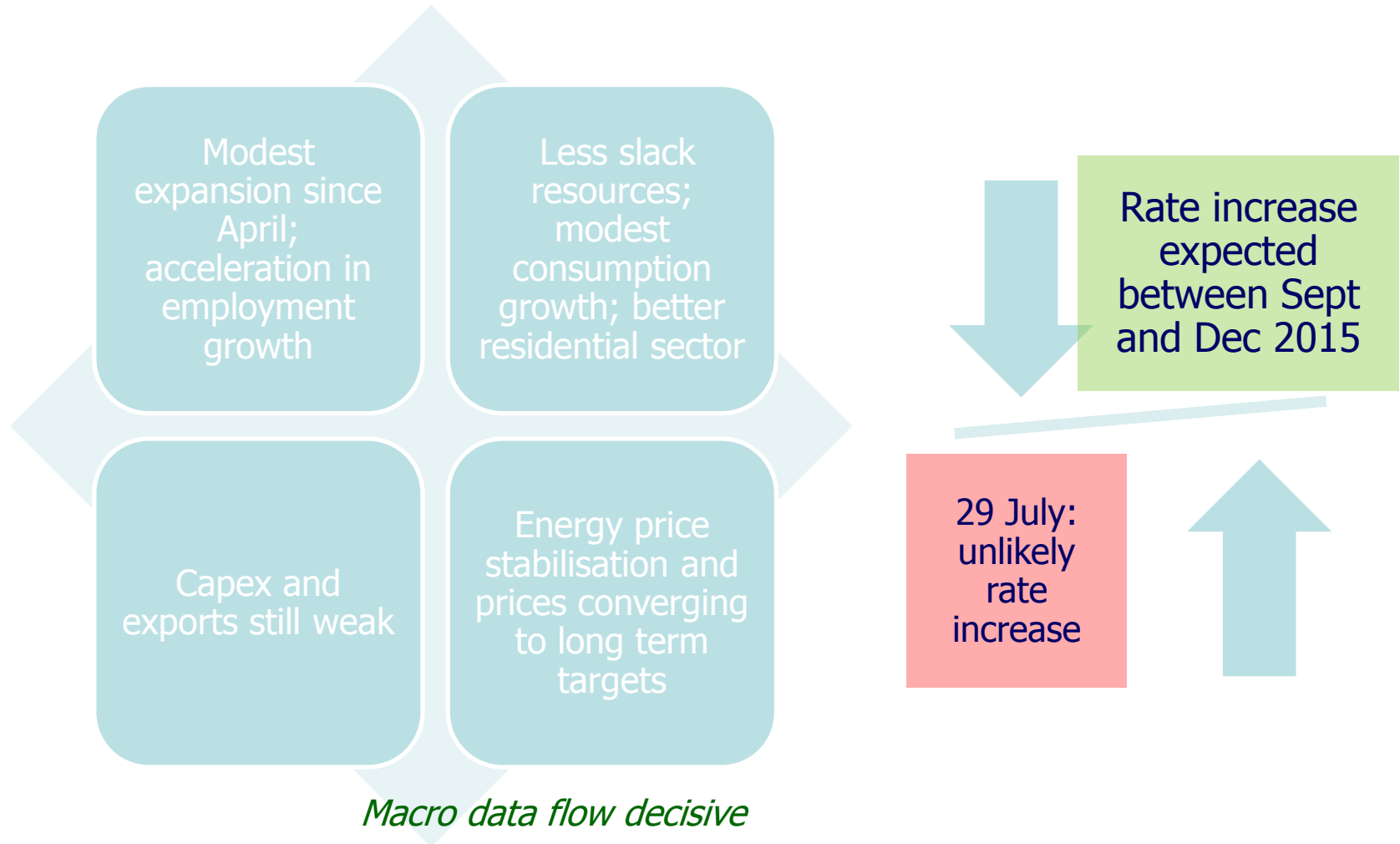
CORE INFLATION



CORE INFLATION AND CORE PPI



THE FINAL COMMUNICATION



GDP

2015	2016	2017
• JUNE 1.9%	• JUNE 2.55%	• JUNE 2.3%
• MAR 2.5%	• MAR 2.5%	• MAR 2.2%

UNEMPLOYMENT RATE

2015	2016	2017
• JUNE 5.25%	• JUNE 5.0%	• JUNE 5.0%
• MAR 5.1%	• MAR 5.0%	• MAR 4.95%

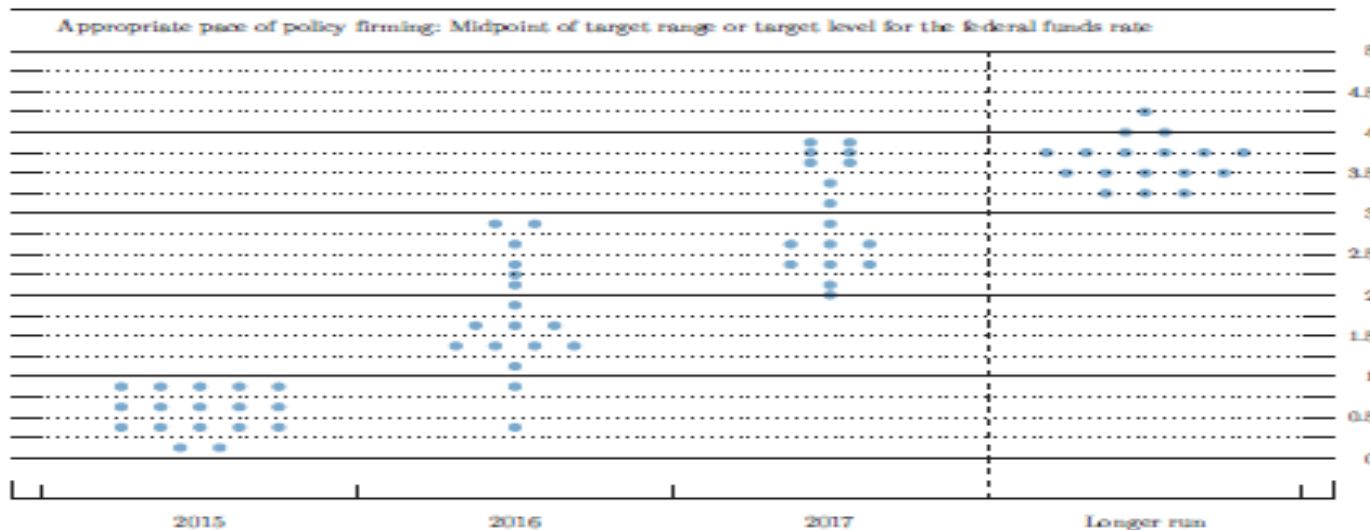
PROIEZIONI DEL FOMC

INFLATION

2015	2016	2017
• JUNE 0.7%	• JUNE 1.75%	• JUNE 1.95%
• MAR 0.7%	• MAR 1.7%	• MAR 1.9%

MONETARY POLICY

15 out of 17 members of FOMC deem it correct to raise rates in the current year (same as December), but forecasts on future levels of interest rates are greatly lower than three months ago. Monetary policy won't return to neutral even by the end of 2017, when expected interest rates will still be below long term equilibrium.



FED FUNDS FORECASTS
(end of period)

2015

- JUNE 0.5%
- MAR 0.75%

2016

- JUNE 1.75%
- MAR 1.75%

2017

- JUNE 3.0%
- MAR 3.25%

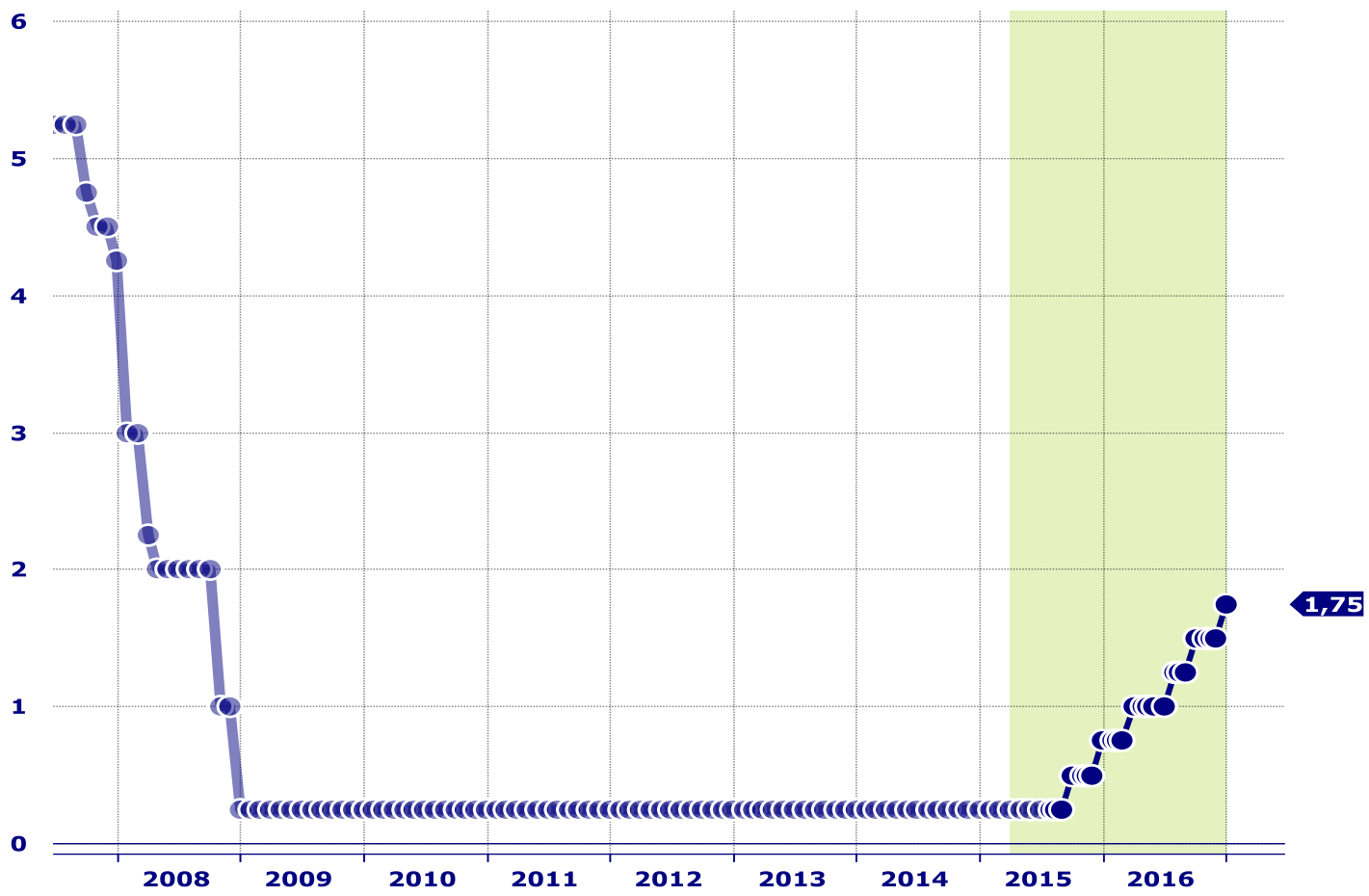
LONG TERM

- JUNE 3.75%
- MAR 3.75%

MONETARY POLICY

The Fed will definitely act gradually on rates. We thus suppose a soft increase path: its start is planned in Q3. At the end of 2015 rates would be maximum at 0.75%; at the end of 2016 they would be at 1.75%, likely at the rhythm of one increase per quarter.

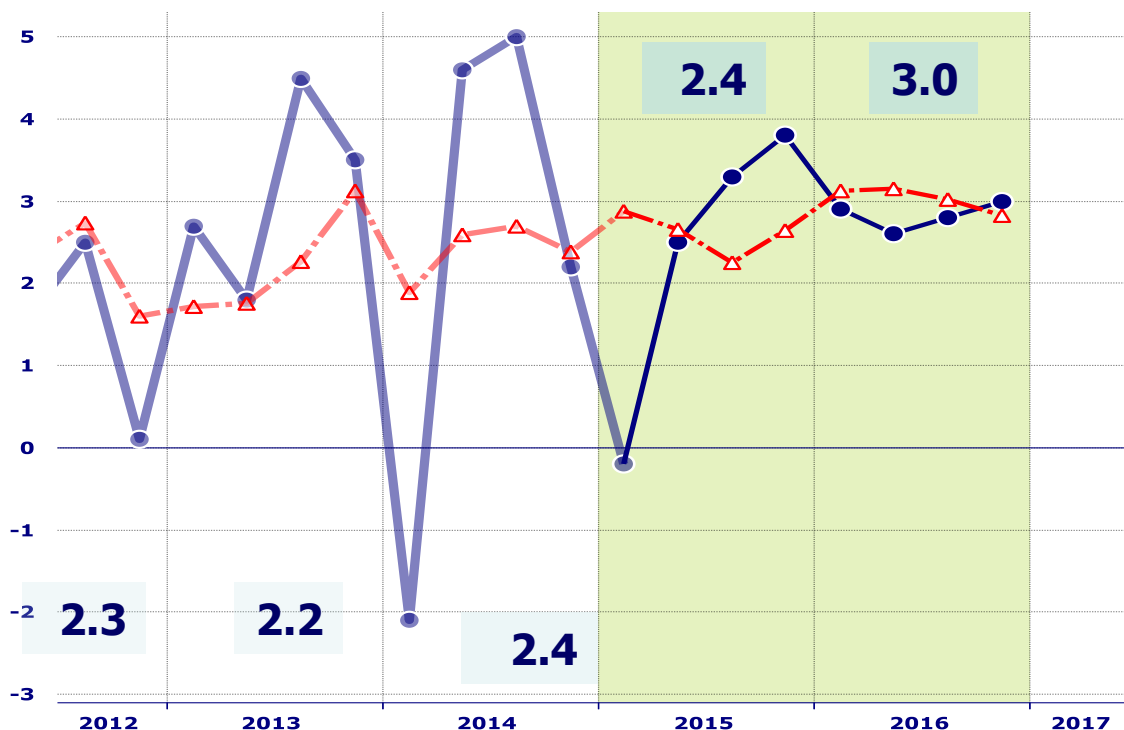
POLICY RATES - FORECAST



OUR GROWTH FORECASTS

According to our analysis, 2015 should close with a growth rate in the US at 2.4%, same as in 2014. The economy should accelerate at 3.0% in 2016.

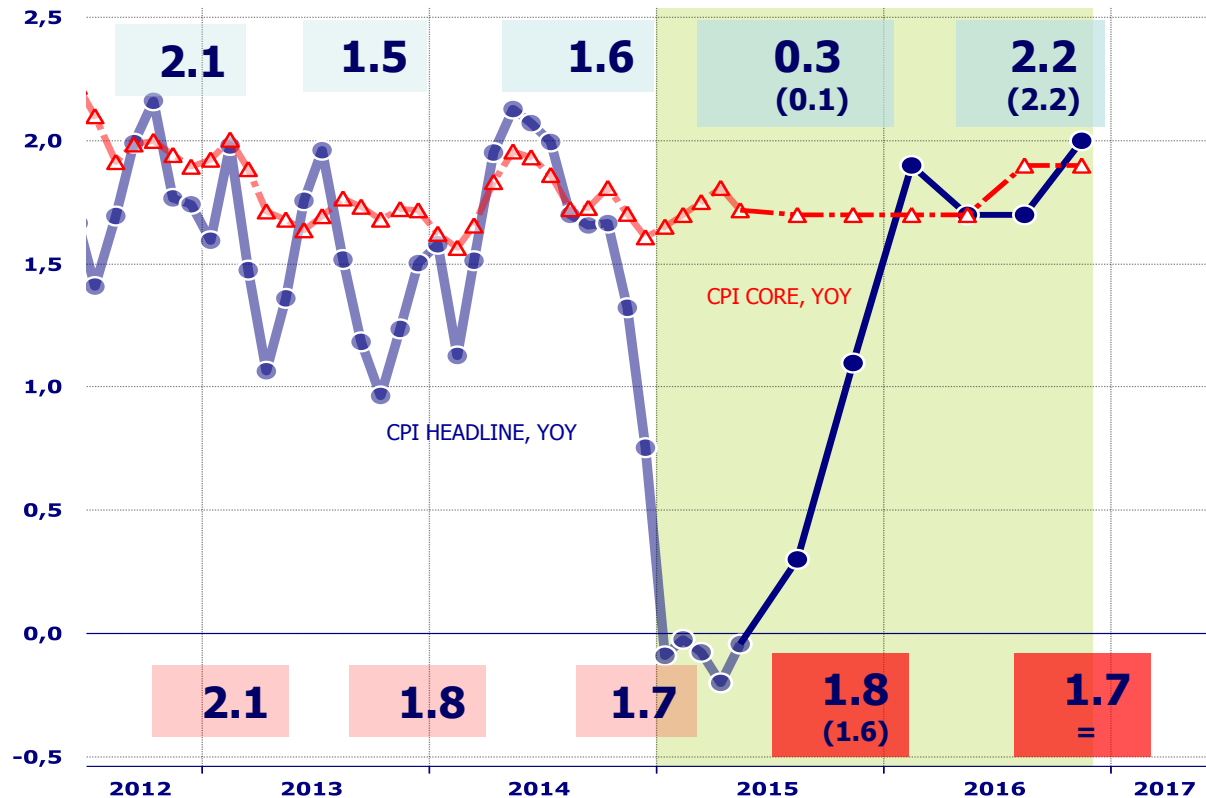
GROWTH –Actual values and Forecasts



OUR INFLATION FORECASTS

Our forecasts for US inflation are higher than last month's for the current year (now at 0.3%) and same for next year (at 2.2%).

INFLATION: NEW PROFILE



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