



Global Economy Report

March-April 2017



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 March 17, 2017

- The March OCSE interim forecasts: a) confirm global growth rates in 2017 (3.3%) and in 2018 (3.6%); b) include a generally incremental change on 2017 forecasts (max in UK); c) signal little change or slightly downsized forecasts for 2018.

Real GDP growth

Year-on-year, %

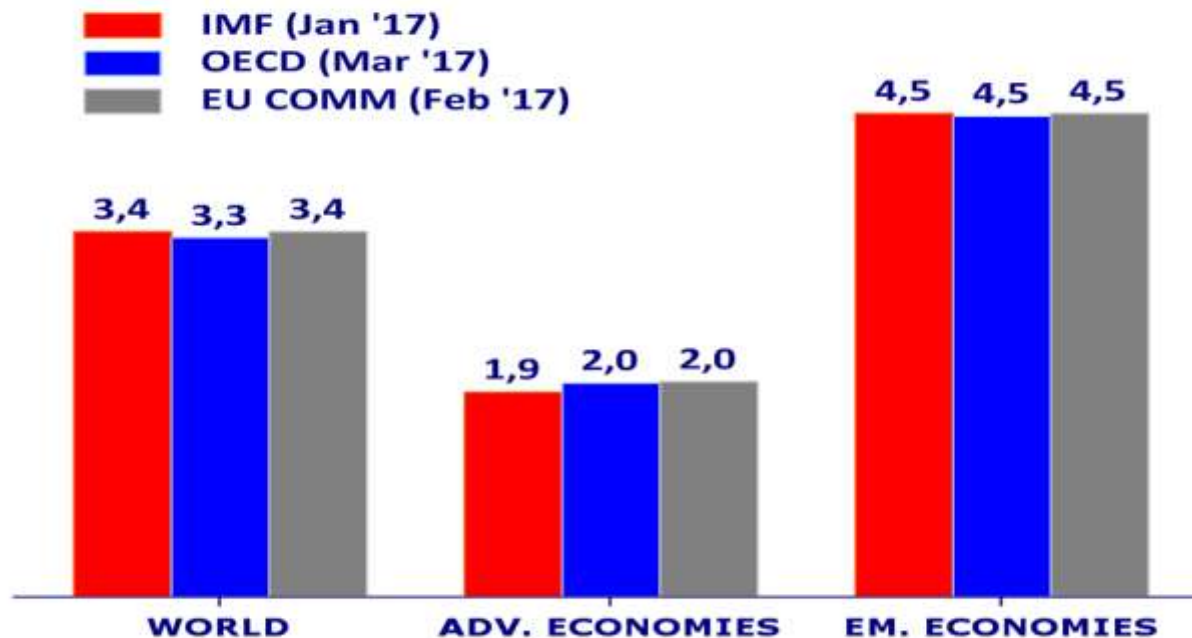
	2016	2017		2018	
		Interim EO projections	Difference from November EO	Interim EO projections	Difference from November EO
World	3.0	3.3	0.0	3.6	0.0
United States	1.6	2.4	0.1	2.8	-0.2
Euro area	1.7	1.6	0.0	1.6	-0.1
Germany	1.8	1.8	0.1	1.7	0.0
France	1.1	1.4	0.1	1.4	-0.2
Italy	1.0	1.0	0.1	1.0	0.0
Japan	1.0	1.2	0.2	0.8	0.0
Canada	1.4	2.4	0.3	2.2	-0.1
United Kingdom	1.8	1.6	0.4	1.0	0.0
China	6.7	6.5	0.1	6.3	0.2
India ¹	7.0	7.3	-0.3	7.7	0.0
Brazil	-3.5	0.0	0.0	1.5	0.3
G20	3.1	3.5	-0.1	3.8	0.0
Rest of the World	2.3	2.7	-0.1	3.2	0.0

**OECD –
INTERIM
FORECAST –
MARCH 2017**
Annual growth rates for
major economies

- International organizations' growth forecasts are also quantitatively basically convergent.

INTERNATIONAL ORGANIZATIONS – FORECASTS 2017

Annual growth rates in 2017 – OCSE, IMF and European Commission

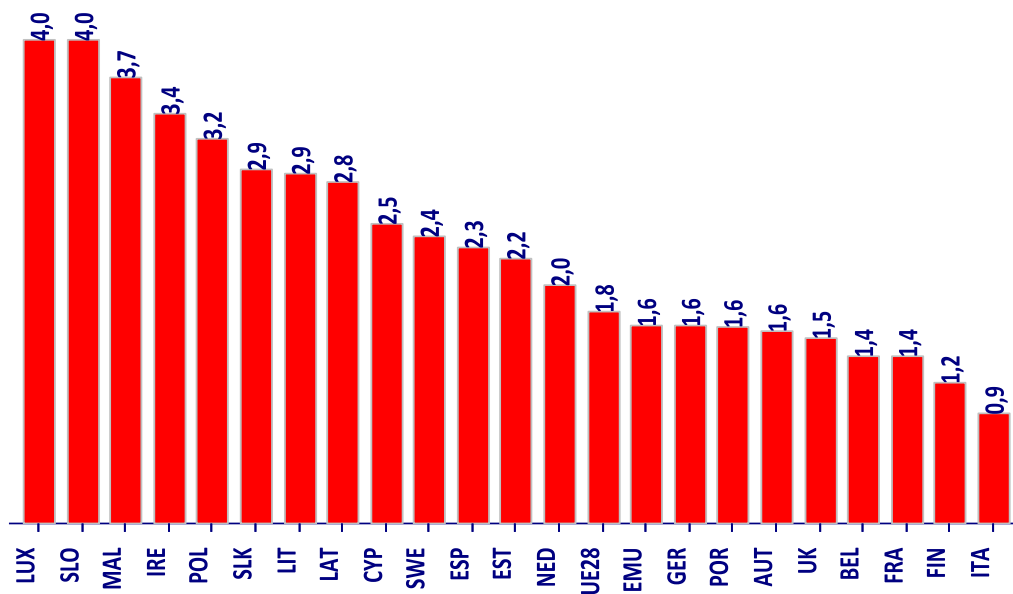


- In terms of macro areas, the US economy has begun 2017 with decidedly favourable signals. Internal demand's structural solidity, with private consumption as its main driver last year, is coupled with a stronger industrial sector, manufacturing in particular.
- These trends have brought the labour market close to a condition of full employment. With this in mind, price tensions are significant, and imply further interventions from the Fed after the one in March. Inflation in January was at 2.5%, a five year high.

- Eurozone's economy presents an expansionary trend which is bound to persist all through 2017. The most recent indications point toward a further reinforcement of growth takeoff. From a macroeconomic perspective, Eurozone's conditions are thus decidedly robust.
- The economic climate shows signals of further improvement in the new year, with PMI survey in February highest since 2011. Basically we are witnessing a strong increase in manufacturing growth potential, anticipating positive trajectories for industrial production.
- The cycle's resilience is flanked by price increases, with February inflation at ECB's 2.0% target for the first time since 2013. Once again, pressure is exogenous, triggered by energy, while the absence of endogenous pressure keeps core inflation stable (at around 0.9%), thus still justifying the ECB's expansive policy.

- In the Monetary Union, according to the European Commission, Germany is expected to grow at 1.6% this year and at 1.8% next year (total upward revision by two tenths), after having reached 1.9% in 2016. France, at 1.2% in 2016, will register growth at 1.4% this year and at 1.7% in 2018 (forecast stable)...

2017



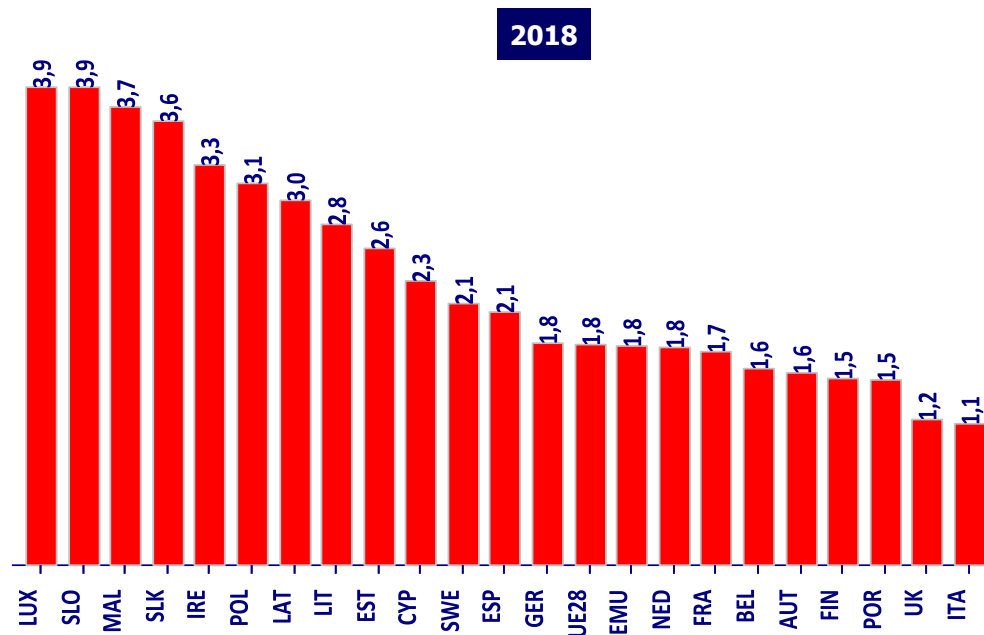
EUROPEAN COMMISSION – GROWTH FORECASTS

Annual growth rates – Winter Forecast,
February 2017

- Spain (3.2% in 2016) should grow at 2.3% in 2017 and at 2.1% in 2018 (confirmed). Finally, Italy, whose total product last year grew by 0.9%, should keep the same growth rate for this year and then increase to 1.1% in 2018.
- In this report we will focus on the Eurozone economy.

EUROPEAN COMMISSION – GROWTH FORECASTS

Annual growth rates – Winter Forecast, February 2017



- In the fourth quarter 2016, exceeding consensus, China's GDP accelerated in annual terms at 6.8%. The system increased its growth rate for the first time since 2014. Income grew by 1.7% YoY. In 2016, on average the economy grew at 6.7%, in line with the government's 6.5-7% target.
- Growth is based on the aggressive impulse from the housing compartment, whose added value has grown at over 15% yearly, more than twice as fast as the whole economy.
- The economy at the beginning of the year had a steady pace, triggered by acceleration in industrial activity, which has grown in February at 6.3%, higher than the 2016 average. The trajectory seems sustainable as business conditions are improving.

- In the fourth quarter, Japan's growth rate has increased compared to its preliminary forecast, by two tenths in annualised terms (from 1.0% to 1.2%). Slight changes have also been made on previous quarters' growth rates.
- Foreign trade has been the main growth contribution, as in the previous period, but the system continues to suffer from low private consumption, that is stagnant. In any case, growth forecast's upward revision is due to a stronger contribution from investment and a lower negative impact of inventories.
- Overall, Japan can count on a significant strengthening of the global economy and on a more favourable exchange rate than last year, which are supporting export's recovery.

EUROZONE

GROWTH

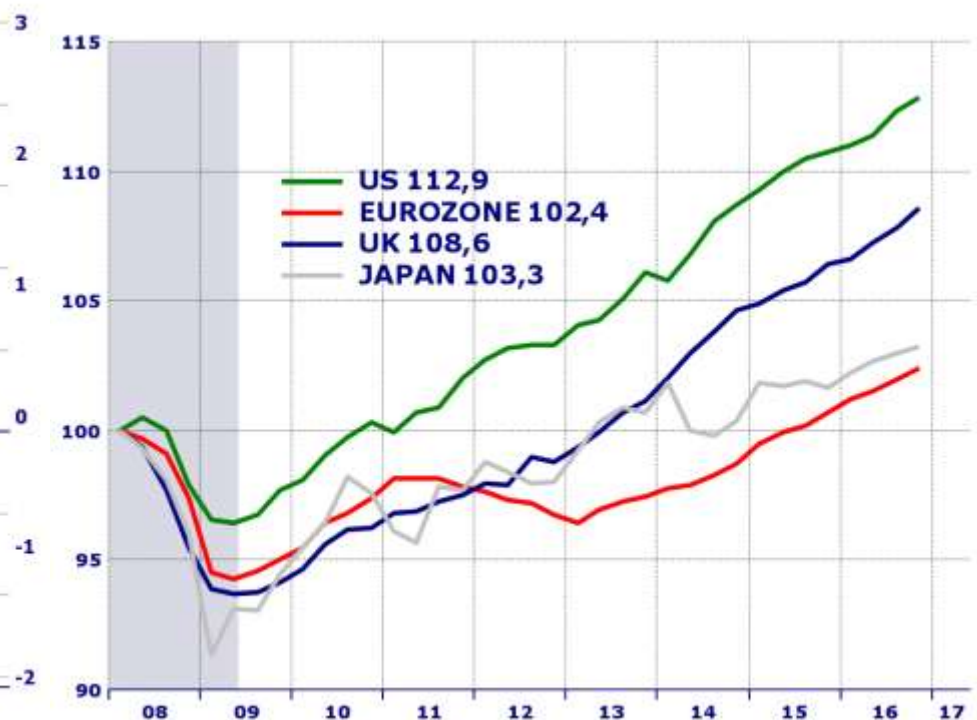
The Eurozone economy keeps expanding at a moderate pace, with 15 consecutive growth quarters. In the fourth quarter of 2016, according to the last estimate, product increased by 0.4%, with the yearly rate at 1.7%.

GDP DYNAMICS



ECONOMIES COMPARED

Normalised values, 2008=100

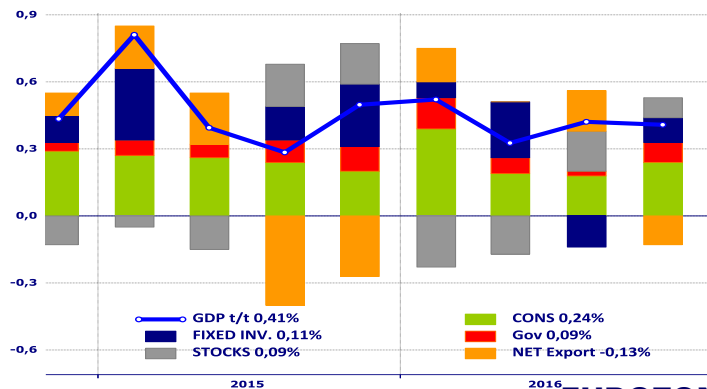


GROWTH

Growth in Q4 of 2016 was supported by domestic demand. Private consumption has again offered the greatest contribution (+0.2%), combined with that from investment (+0.1%), slightly lower than in the previous period. Inventories and public spending contributions are also positive while, as in the USA, net export gave a negative contribution.

EUROZONE ECONOMIC GROWTH

Growth contributions



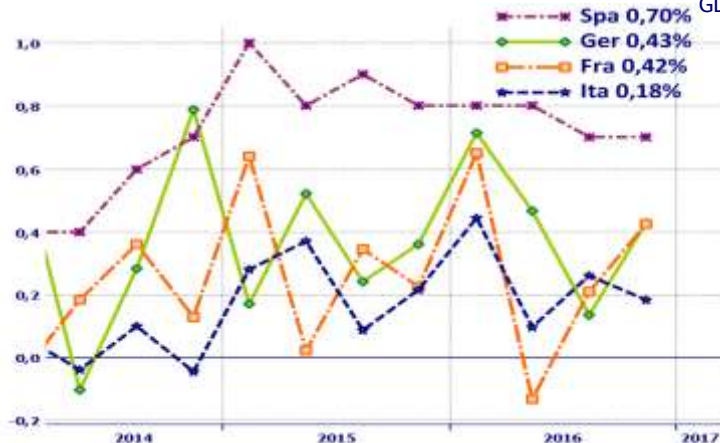
FISCAL POLICY – EUROZONE

% primary surplus vs. potential GDP – OCSE data



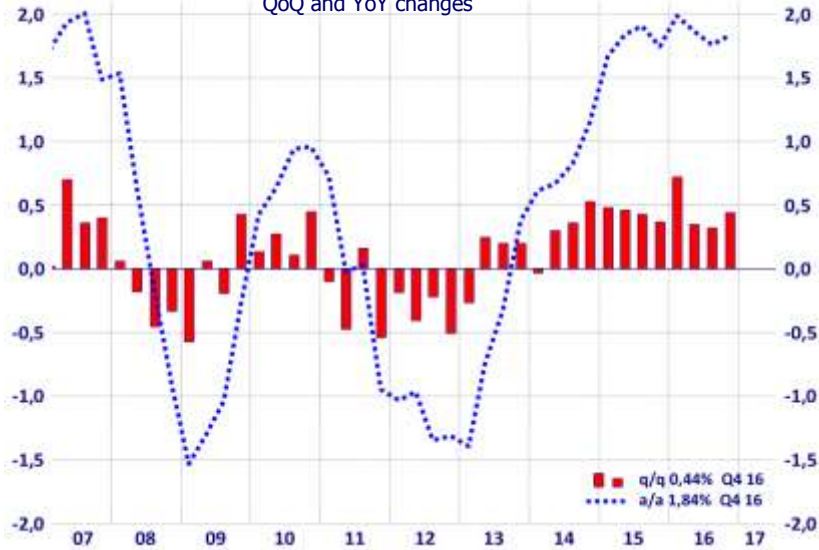
EUROZONE ECONOMIC GROWTH

GDP - quarterly survey



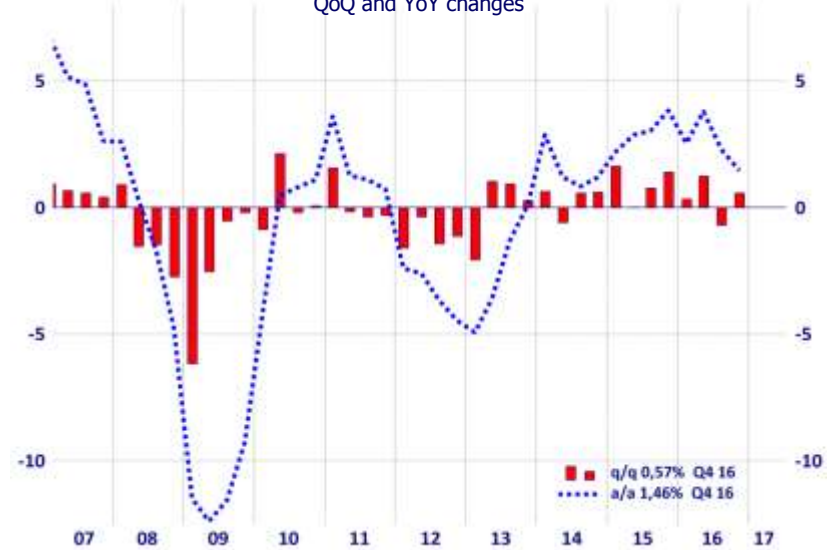
GDP - CONSUMPTION

QoQ and YoY changes



GDP - INVESTMENT

QoQ and YoY changes



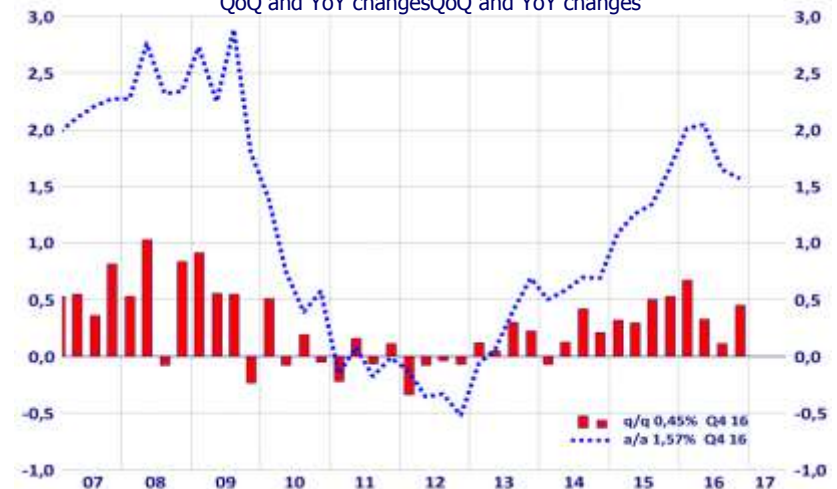
GDP - INVENTORIES

Values in bn euro



GDP - PUBLIC SPENDING

QoQ and YoY changes

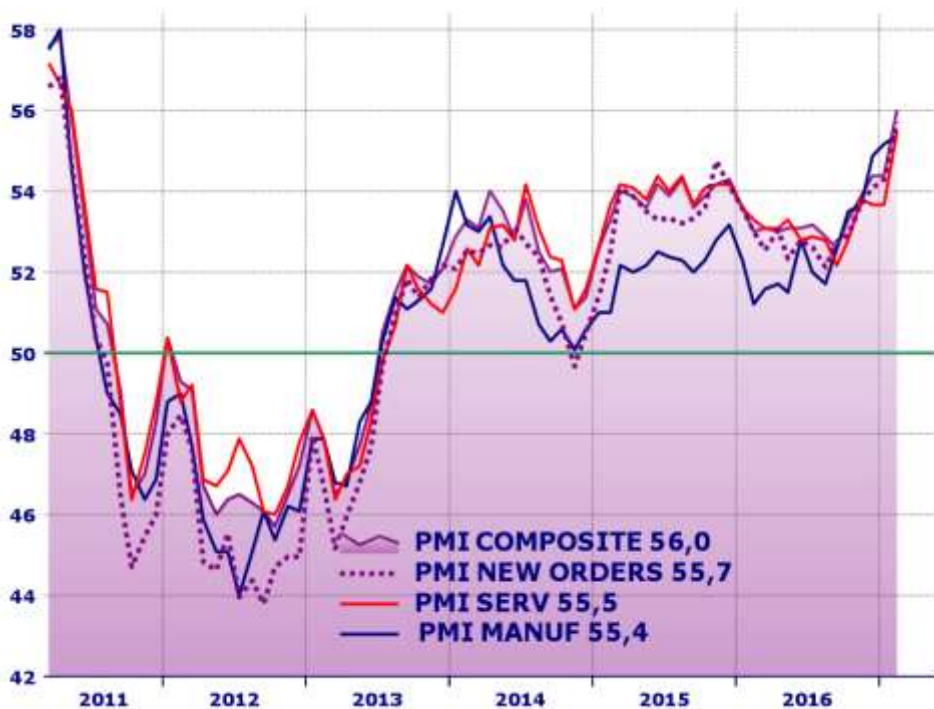


CYCLE BAROMETER

According to PMI surveys, Eurozone's economy has registered an acceleration in February, in principle associated with the strongest expansion rate of the past six years. The composite index has reached 56 points, for the first time since 2011, with an ample 1.6 point net progress on January. The survey exceeds consensus and is on historically high levels for the Monetary Union.

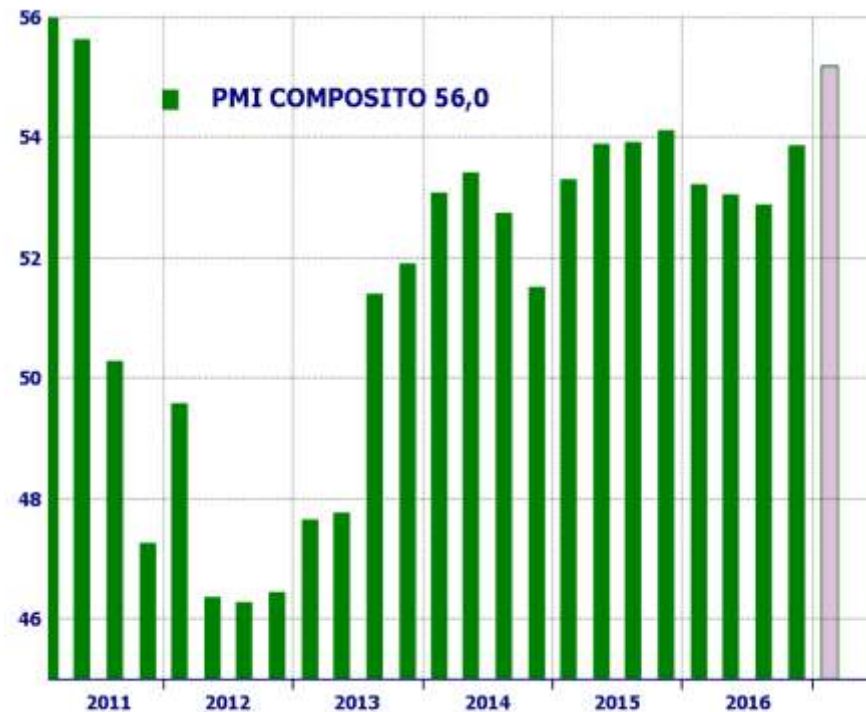
LEADING INDICATORS

COMPOSITE PMI - trends



LEADING INDICATORS

COMPOSITE PMI - quarterly averages



CYCLE BAROMETER

All the main components of Eurozone's global PMI survey are in February at several years' highs, signalling a pervasive expansionary impulse. New orders grow at the fastest pace since 2011, as do backorders; employment registers the highest growth rate since 2007, touching levels unseen since the financial crisis. Prices grow, more than in the past six years.

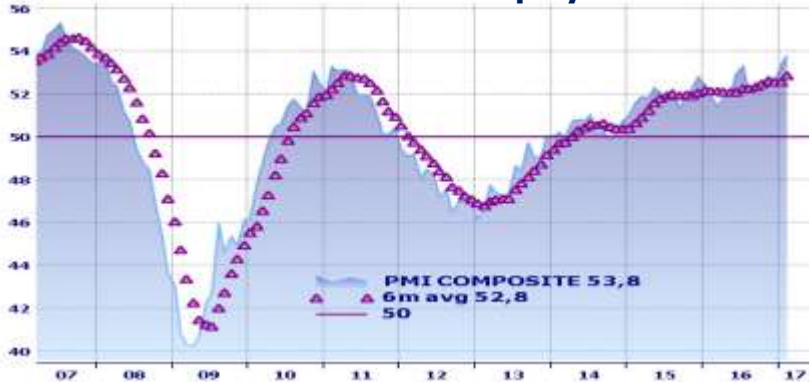
COMPOSITE PMI – New Orders



COMPOSITE PMI – Backorders



COMPOSITE PMI – Employment



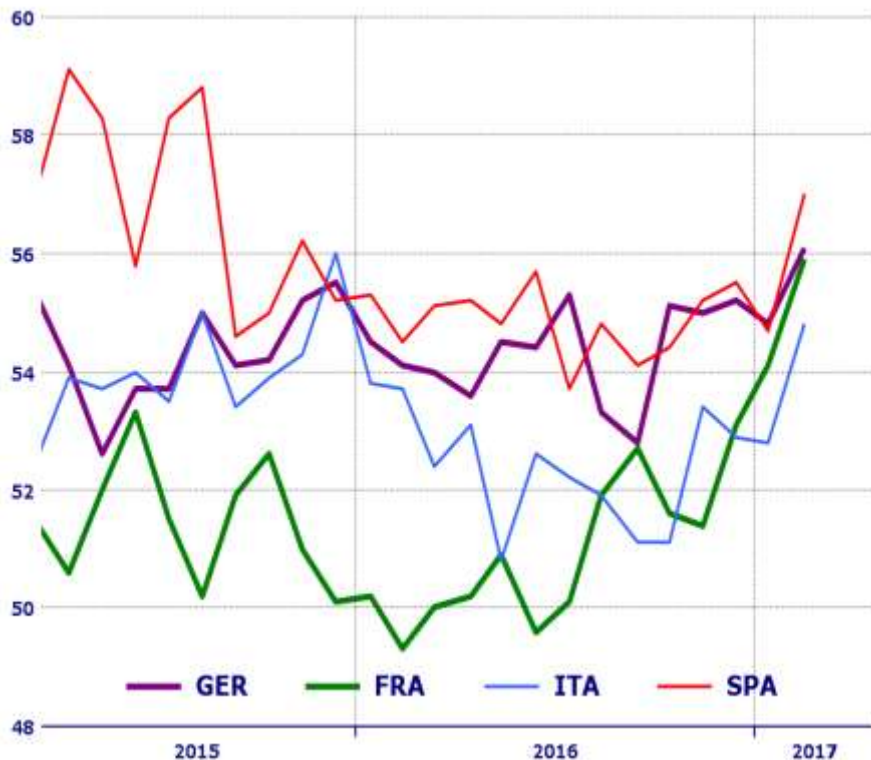
COMPOSITE PMI – Output Prices



In the first months of 2017, the expansive impulse is not only more aggressive, but it has also got a wider geographical base. In particular, France, that in the past two years has slowed down aggregate growth, now registers expansion rhythms similar to Germany's. The graph on the right highlights the improvement in the French economy.

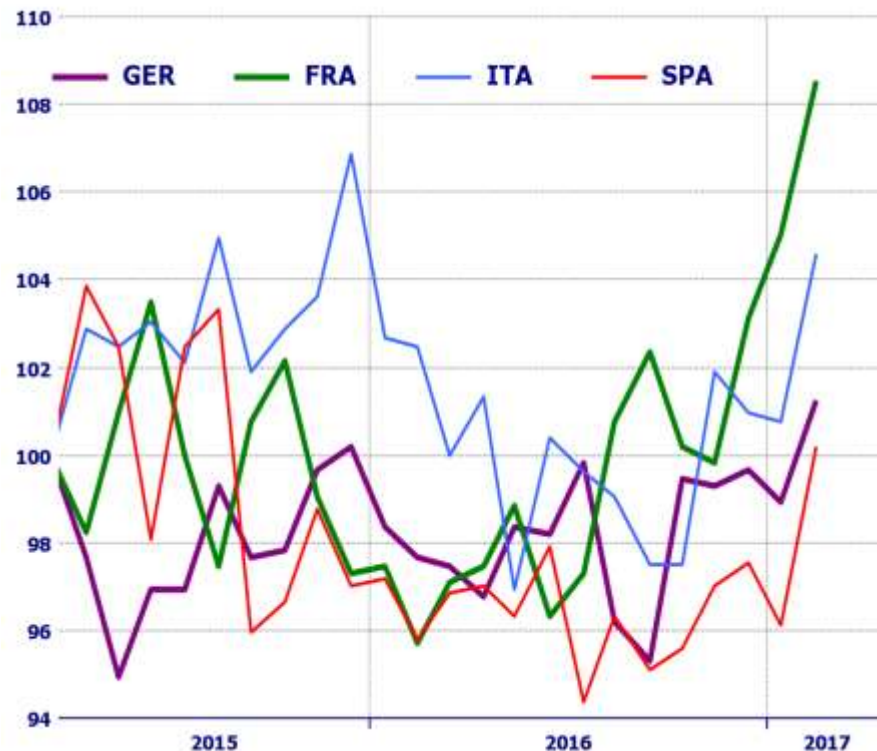
LEADING INDICATORS

COMPOSITE PMI – Eurozone's principal economies



LEADING INDICATORS

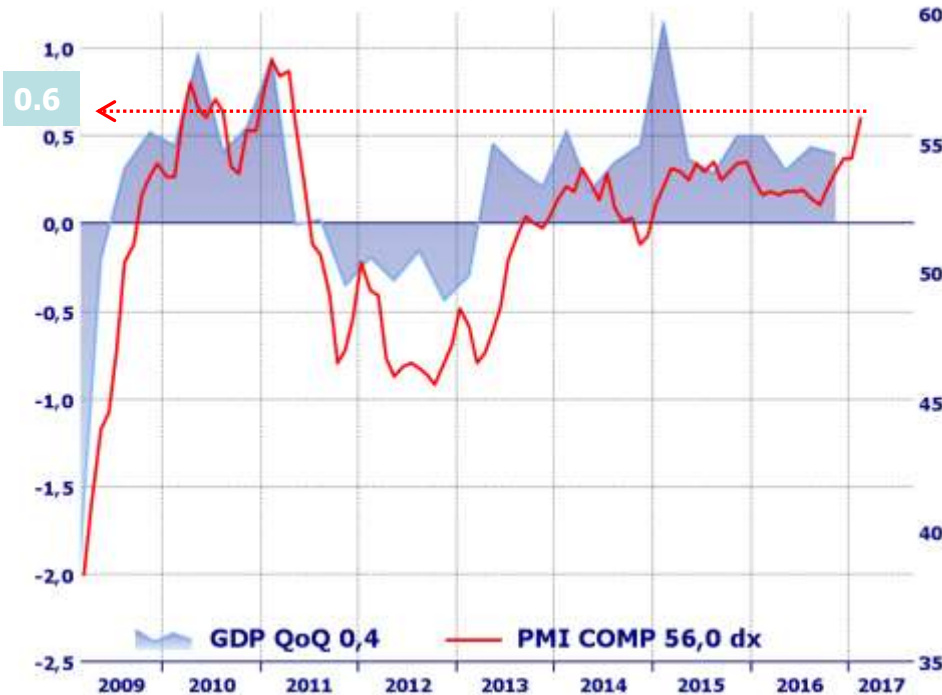
COMPOSITE PMI – normalised values (1/1/2015=100)



February's composite PMI levels are compatible with a strong growth acceleration in the first quarter of 2017, projecting an increase in aggregate income at 0.6% QoQ and at 2.2% on an annual basis, sensibly higher than current values.

LEADING INDICATORS AND GROWTH

COMPOSITE PMI AND QoQ GDP



LEADING INDICATORS AND GROWTH

COMPOSITE PMI AND YoY GDP



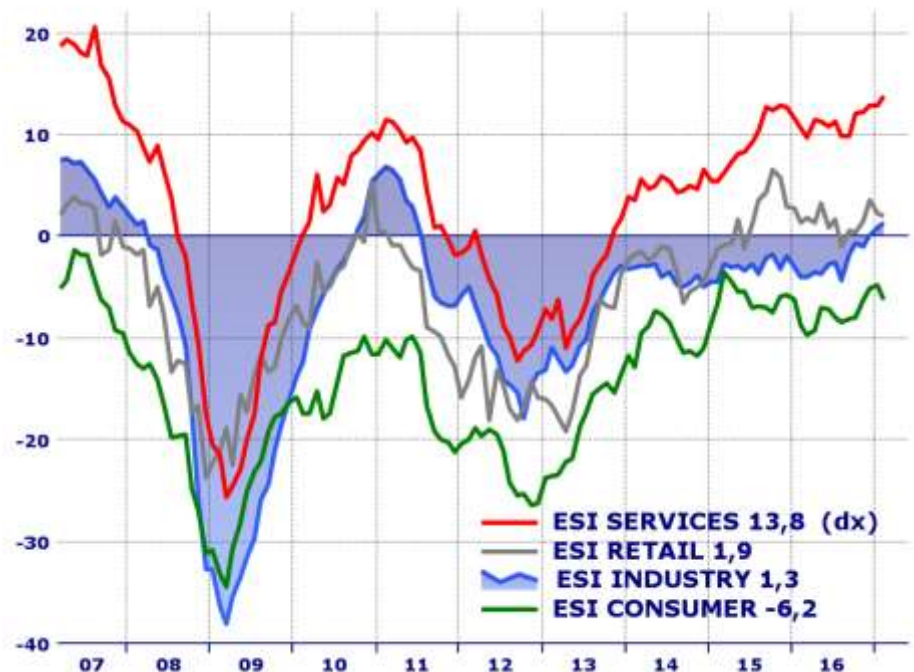
CYCLE BAROMETER

Also the European Commission's ESI survey signals the impulsive phase of the cycle and the improved macro conditions. The synthetic indicator was up at 108.0 in February, highest since March 2011. All main sectors reflect historically high conditions: the industrial index registers a six-year high, while services have the highest reading since 2007!

LEADING INDICATORS



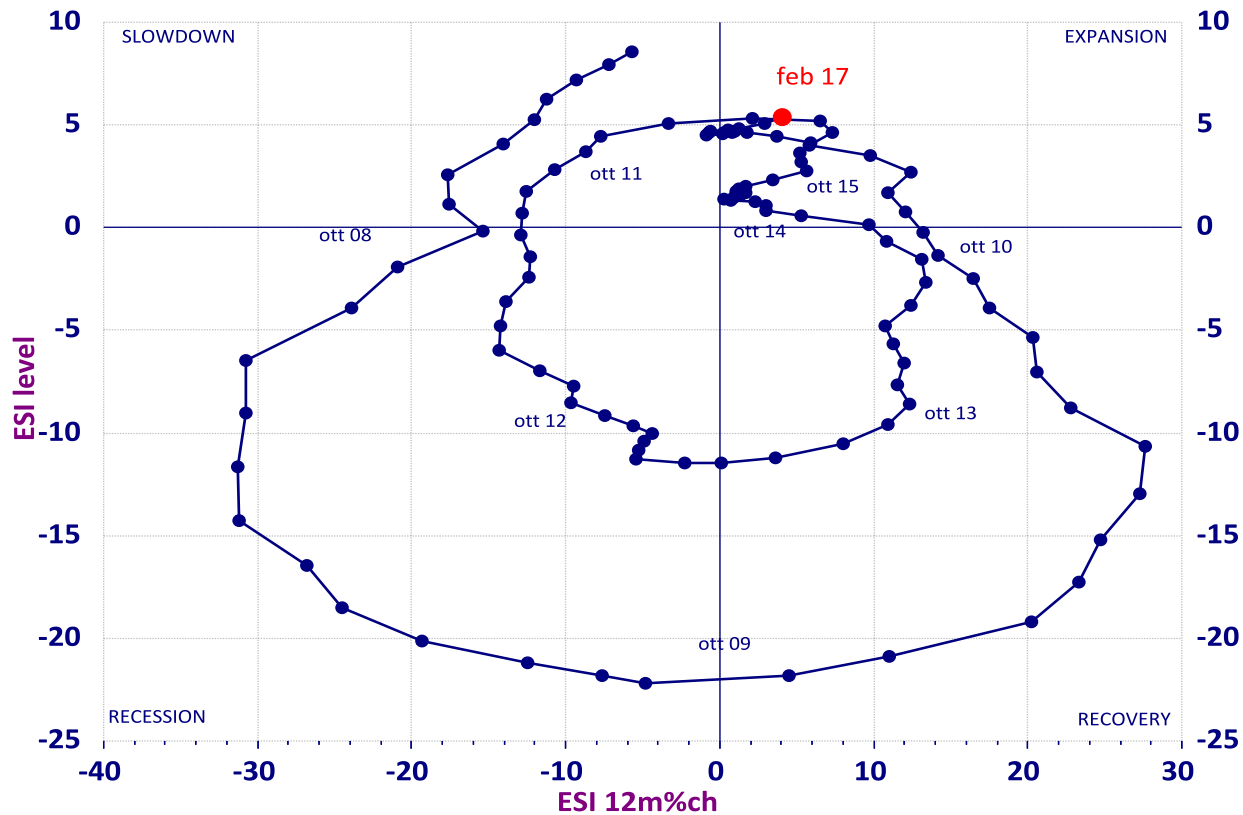
LEADING INDICATORS



CYCLE BAROMETER

In February, the ESI economic cycle clock has further moved into the expansion quadrant, signalling vigorous conditions in the economic cycle for the beginning of the new year.

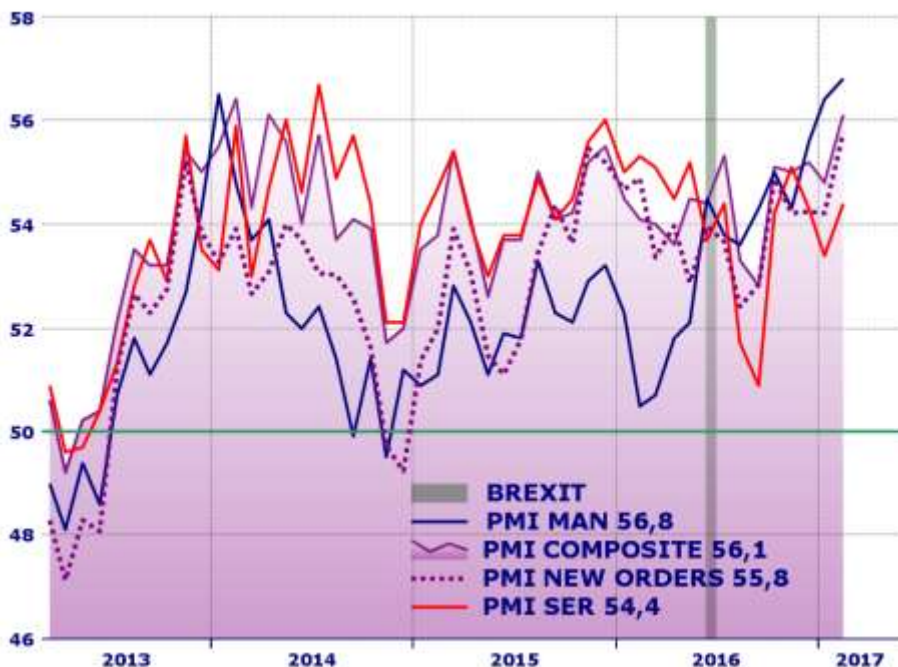
ECONOMIC CYCLE CLOCK: ESI INDEX



For Germany, the general PMI index grew to 56.1 in February (+1.3), highest since 34 months. Statistics confirm a vigorous increase of economic activity that has an ample basis, driven by the strong manufacturing progression (56.8 points, +0.4 since January, highest since 2011), helped by services' strong conditions (54.4, one net point above January's data, a three-month high).

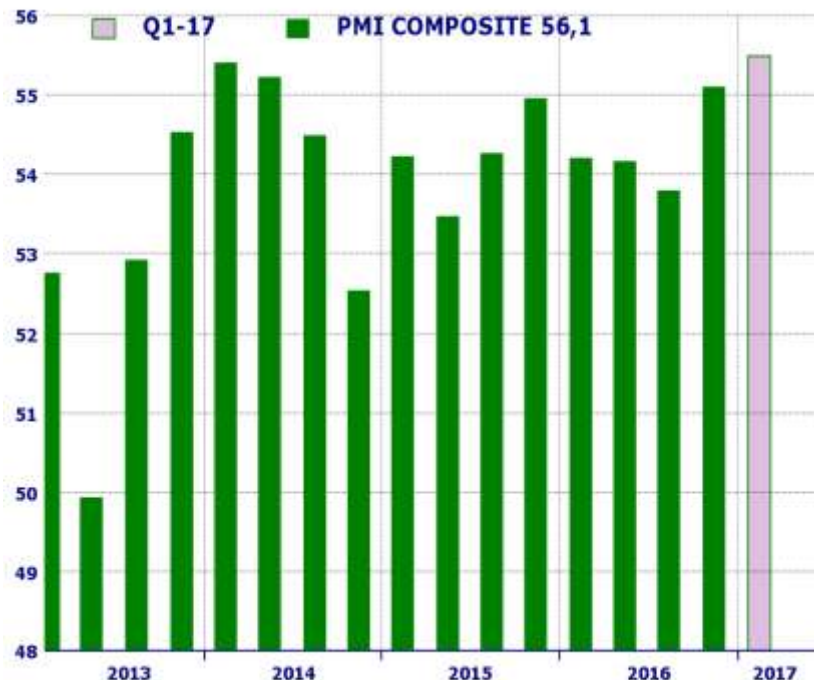
LEADING INDICATORS

COMPOSITE PMI - trend



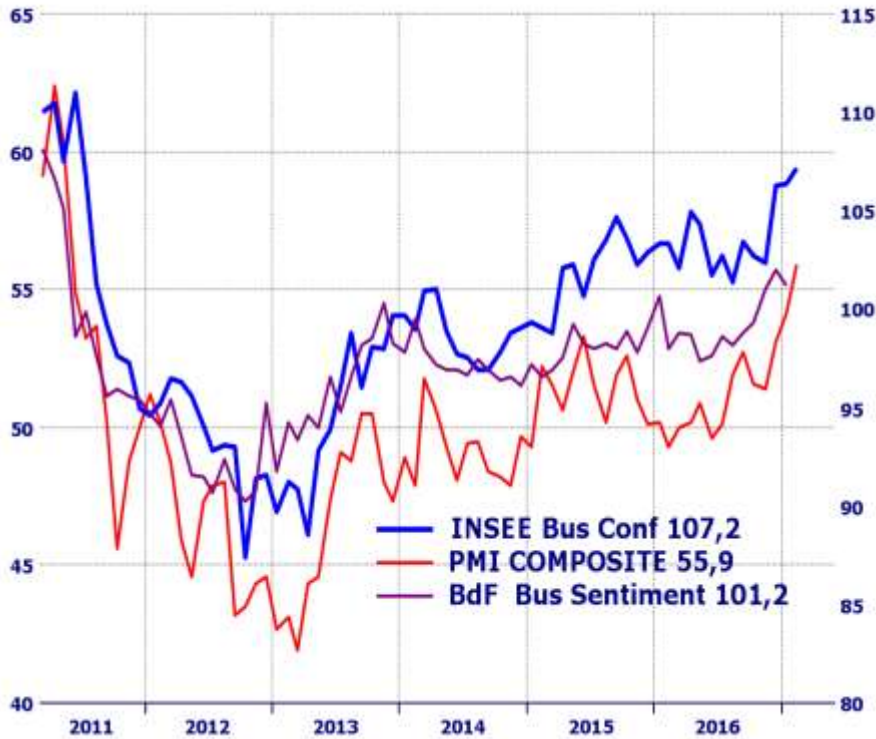
LEADING INDICATORS

COMPOSITE PMI - quarterly averages

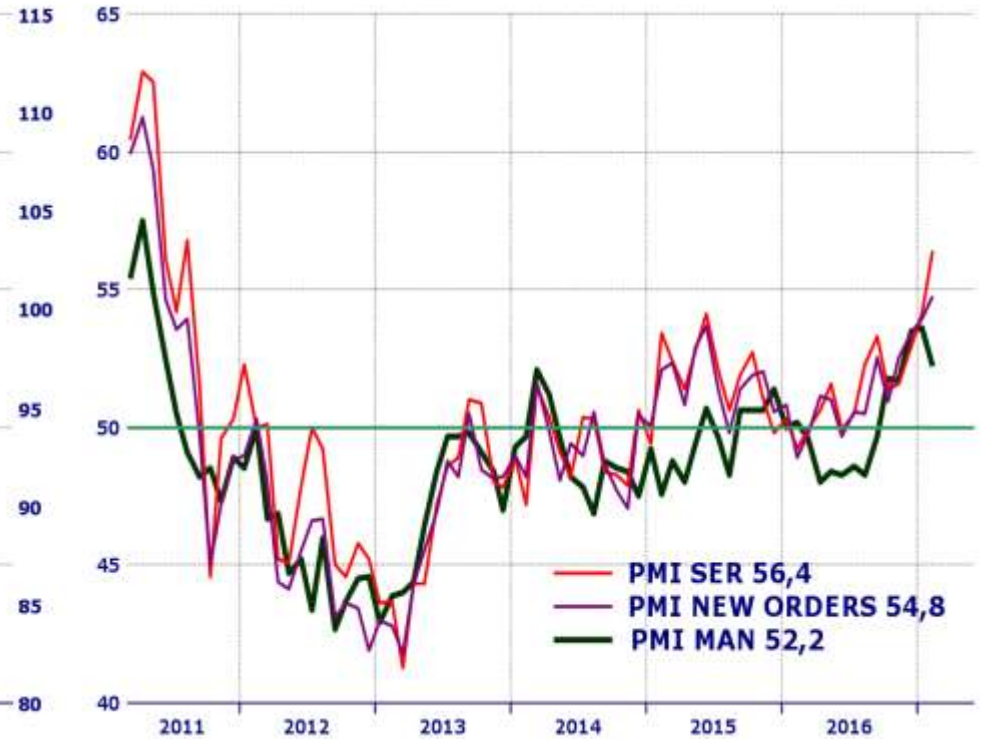


In February, the three most important surveys of the French economy (PMI; National Statistics Institute; Bank of France) have literally skyrocketed, reaching 2011 highs.

LEADING INDICATORS

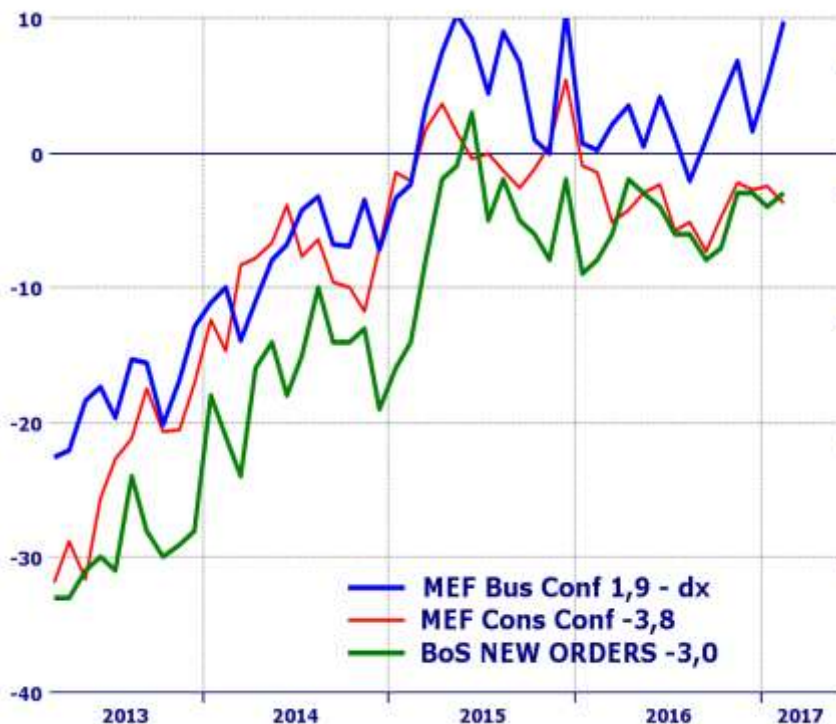


LEADING INDICATORS

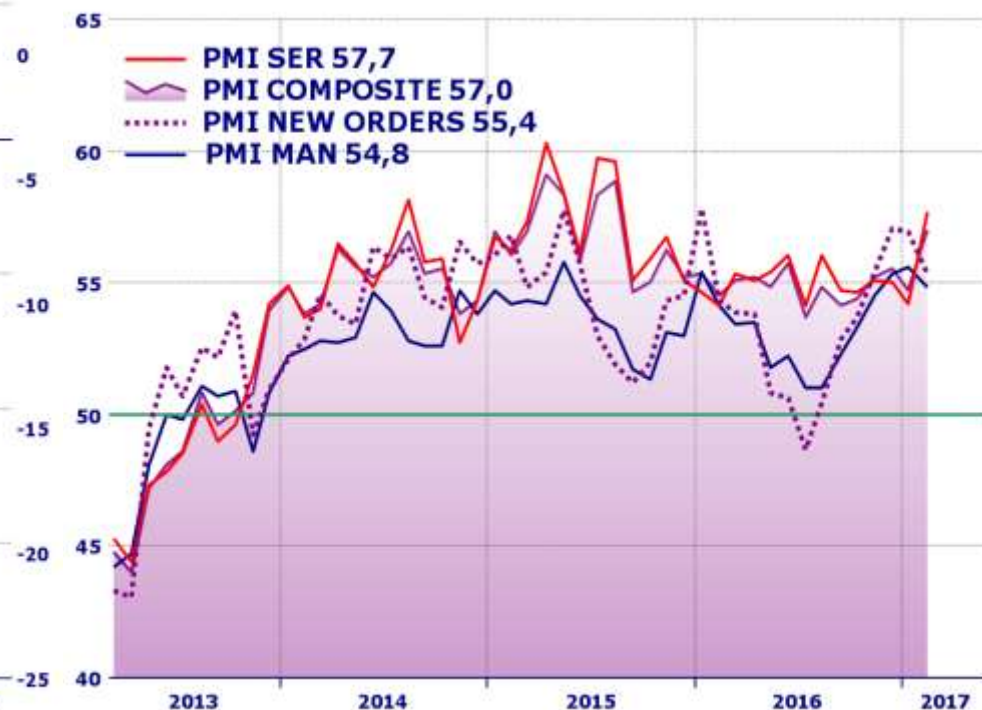


The Economy Ministry's economic climate index leaped in February at maximum levels since 2007. Composite PMI, at 57, is on two-year highs, with an accelerating trajectory.

LEADING INDICATORS

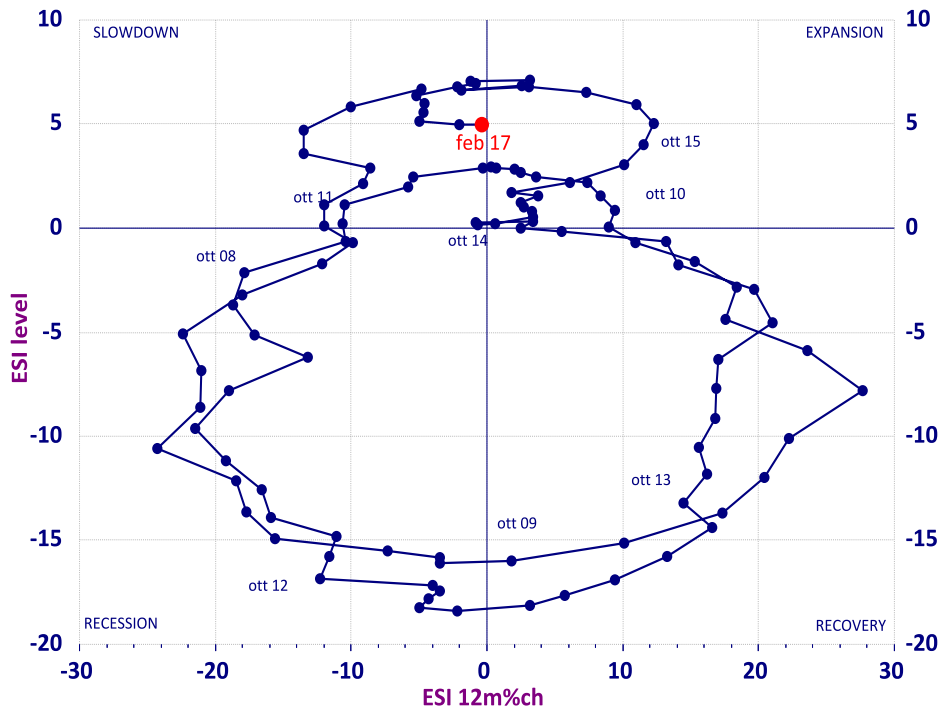


LEADING INDICATORS



Also the Italian economic conditions are improving according to the surveys. The economic cycle clock indicates that in February the system reached the border of the expansion quadrant.

ECONOMIC CYCLE CLOCK: ESI INDEX



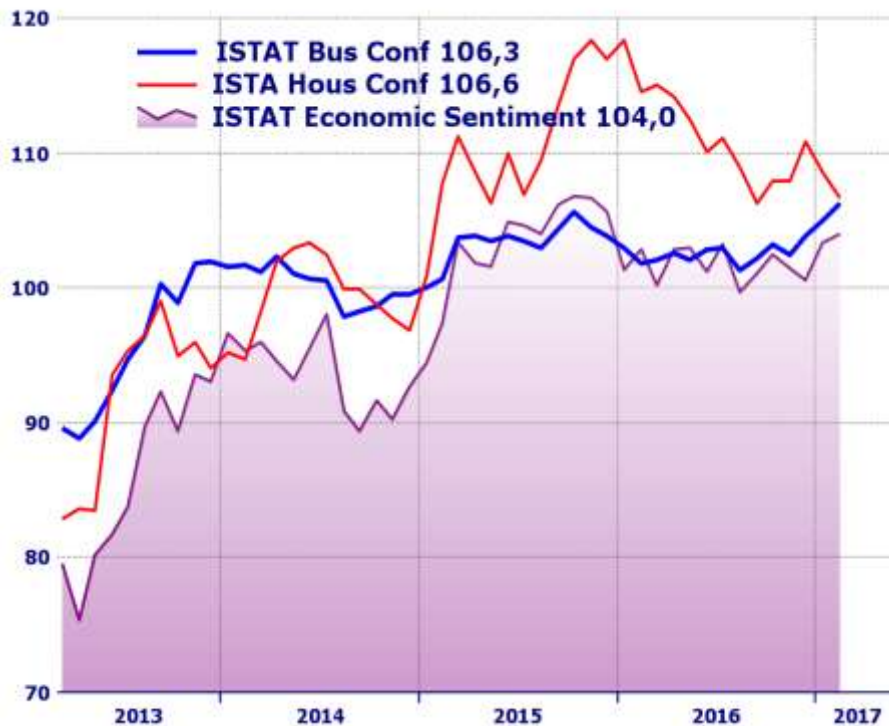
ESI INDEX: ITALY



CYCLE BAROMETER : ITALY

The Istat index that measures business confidence, in February records the past ten-years' high (106.3), but households' sentiment (106.6) at the same time is at the past year and a half's lowest. Overall, the economic climate (104) has registered highs since the beginning of 2015 and confirms the stabilisation signal coming from the ESI. Also the PMI survey signals economic recovery in February: at 54.8, the composite index grew at the year's high.

LEADING INDICATORS



LEADING INDICATORS



RETAIL SALES

About hard data, 2017 started with a modest decrease in retail sales, by one tenth of a point. The rate slowed down to 1.0%, completing a slowdown trajectory that brought it at 2013's lows.

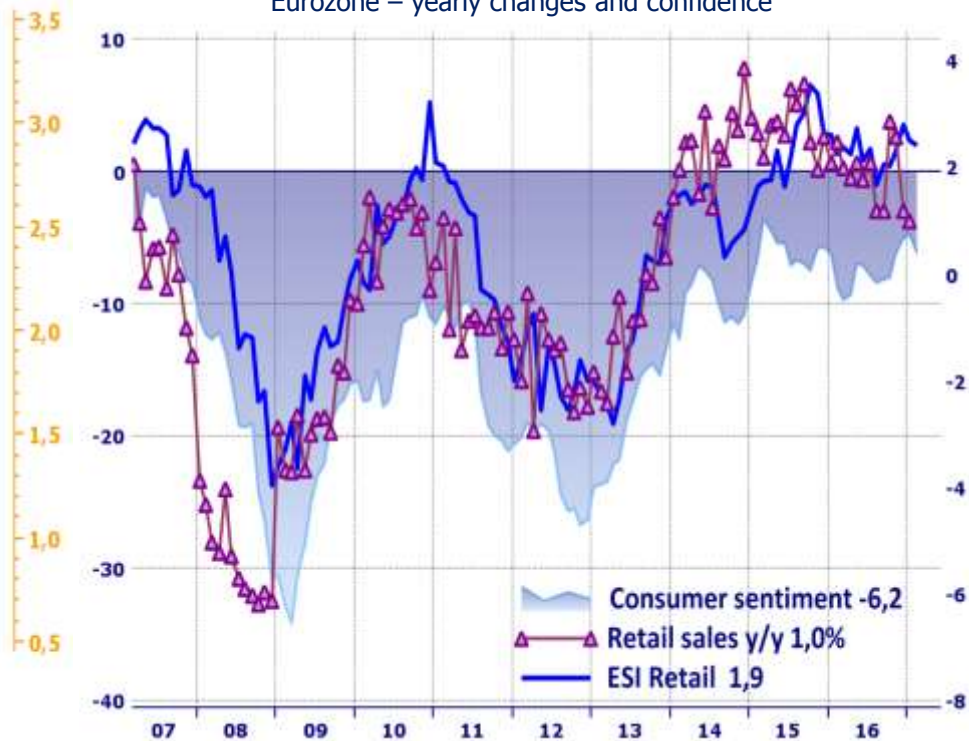
RETAIL SALES

Eurozone; YoY changes



YoY CHANGES

Eurozone – yearly changes and confidence

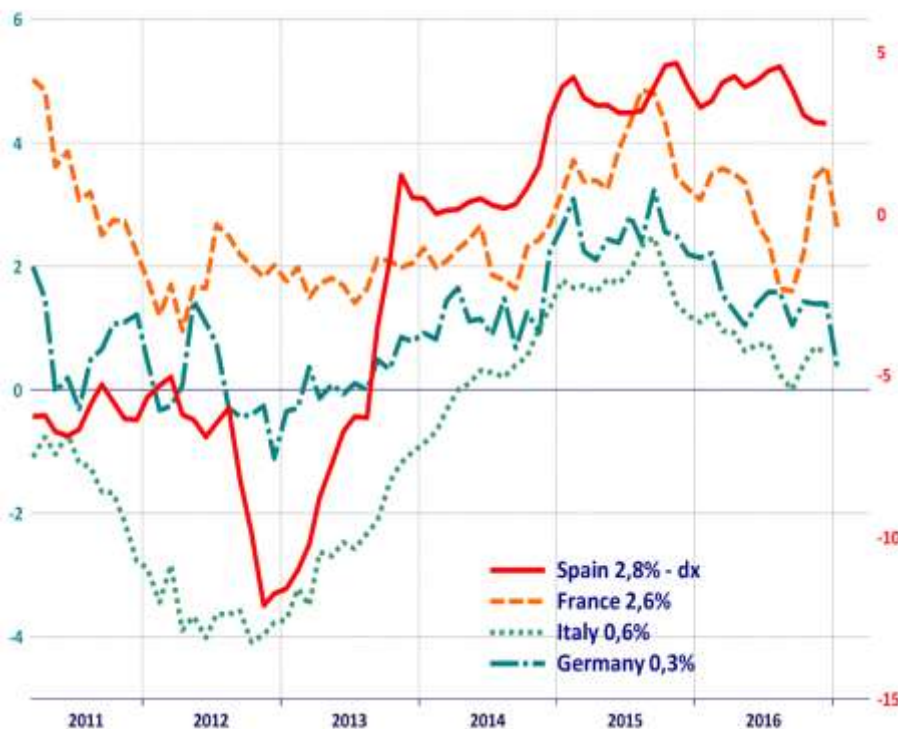


RETAIL SALES

In January, sales decreased both in Germany and in France. The trend dynamics overall highlight a lower impulsive condition than in the past two years.

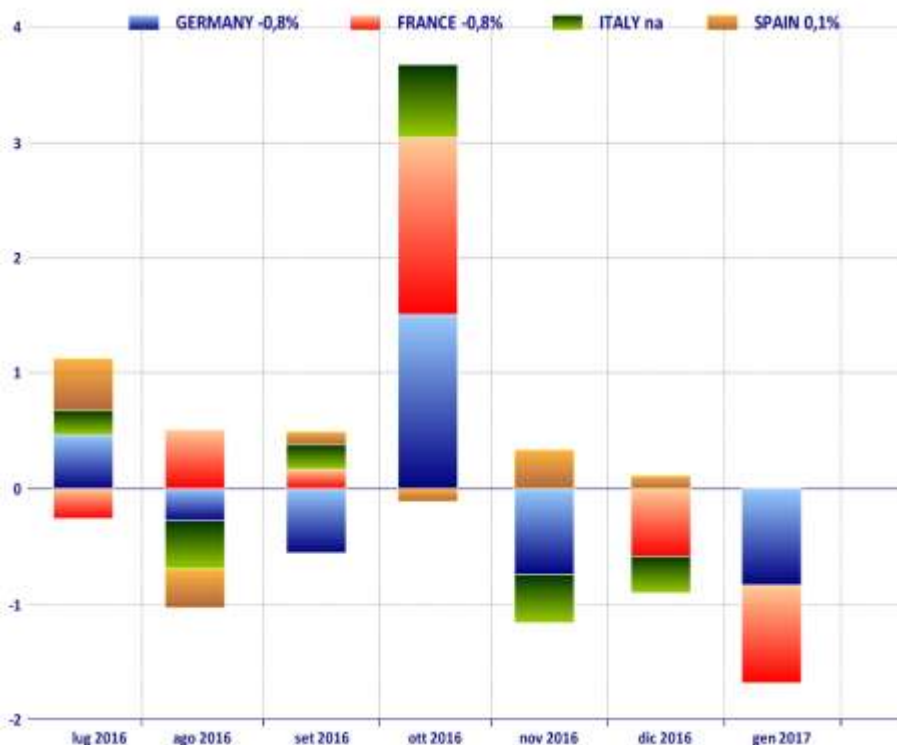
RETAIL SALES

Principal countries; changes



CHANGES

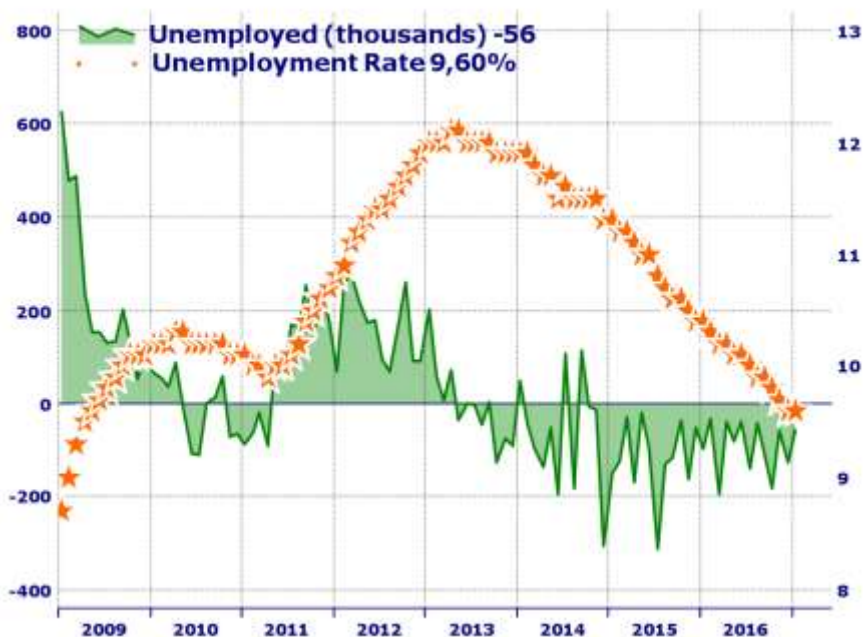
Principal countries; changes



The unemployment rate continues to decrease and at 9.6% it's at the lowest since 2009. The expected rather strong growth in the Eurozone should further decrease unemployment.

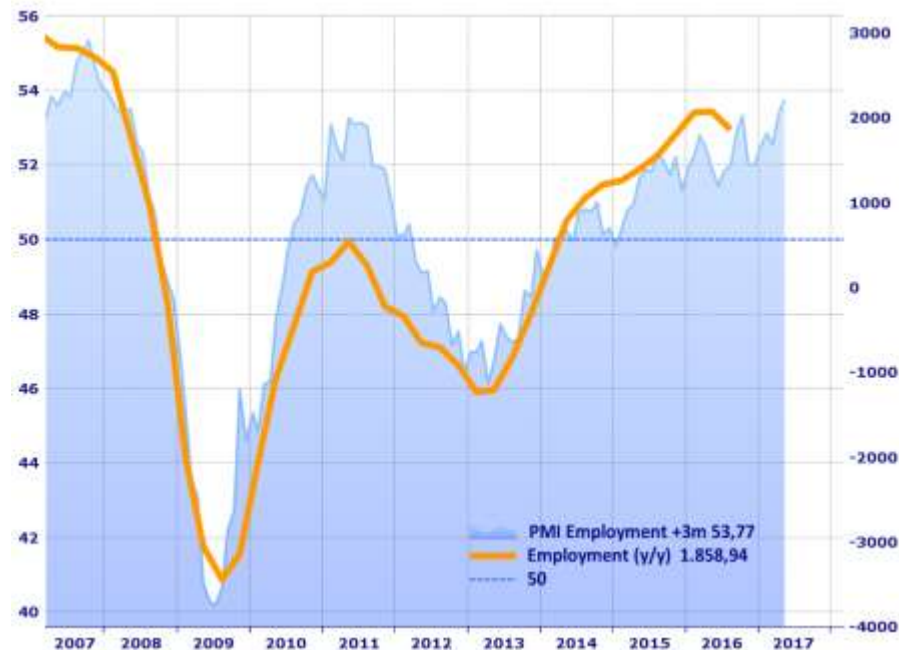
LABOUR MARKET

Unemployment



LABOUR MARKET

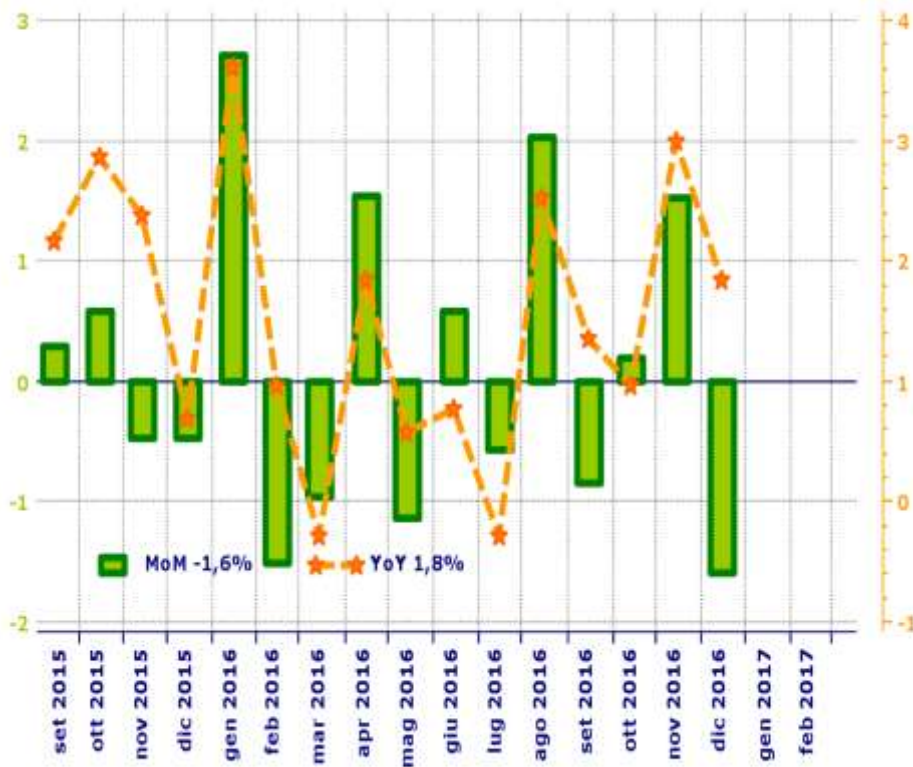
Employment and Expectations



Eurozone's growth rate for industrial production was at 1.6% at the end of 2016. In January, industrial activity has grown in Germany and Spain, slowing down in Italy and France.

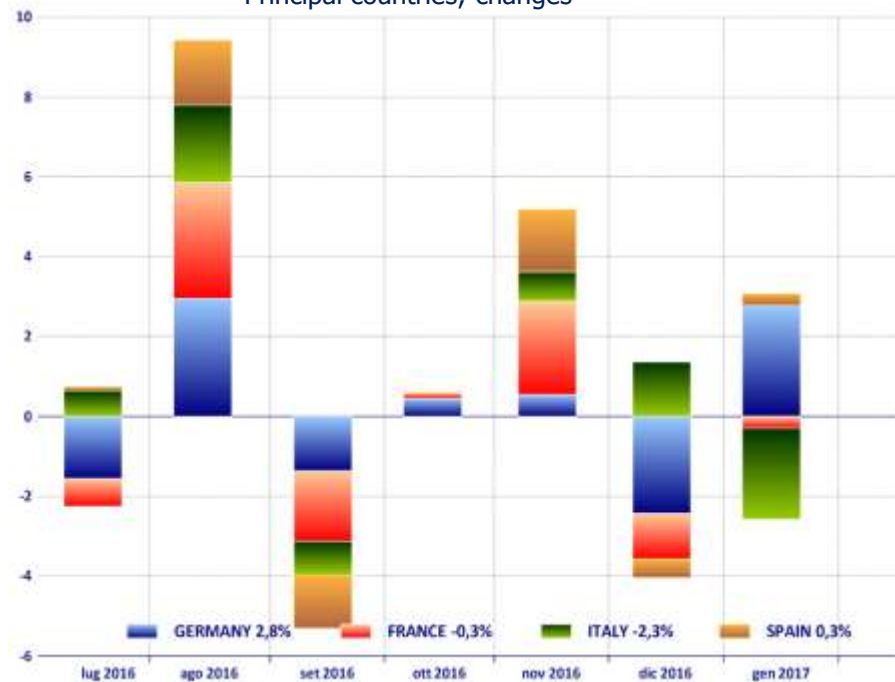
INDUSTRIAL PRODUCTION

Eurozone; changes



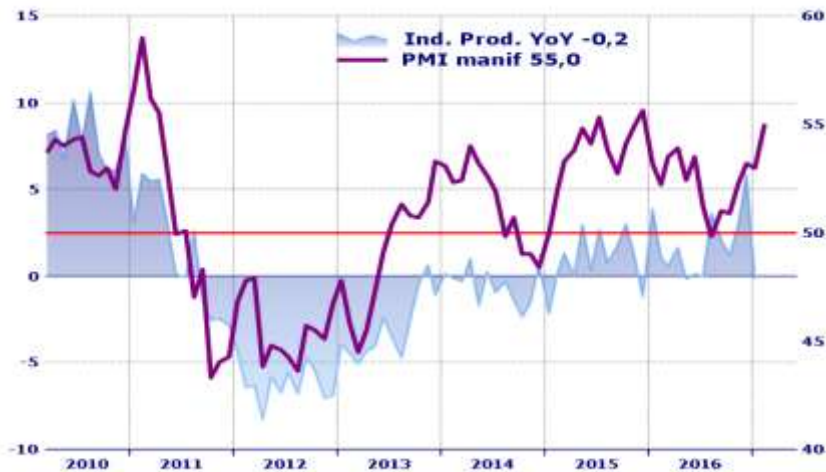
QoQ CHANGES

Principal countries; changes



Leading indicators for 2017 signal good growth perspectives for industrial activity in all the four largest Eurozone countries.

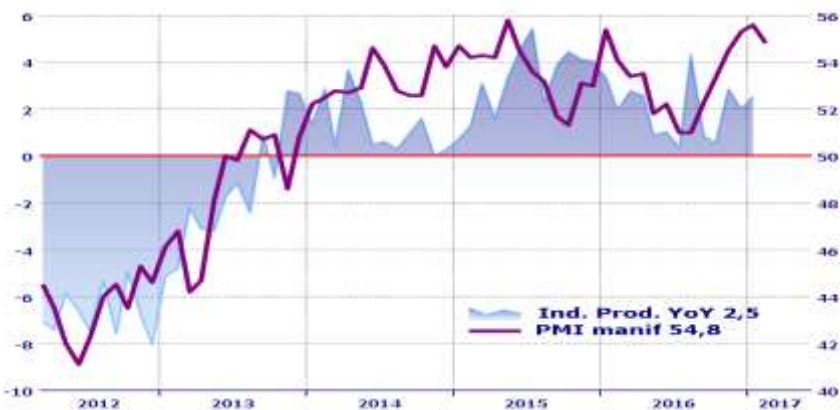
ITALY



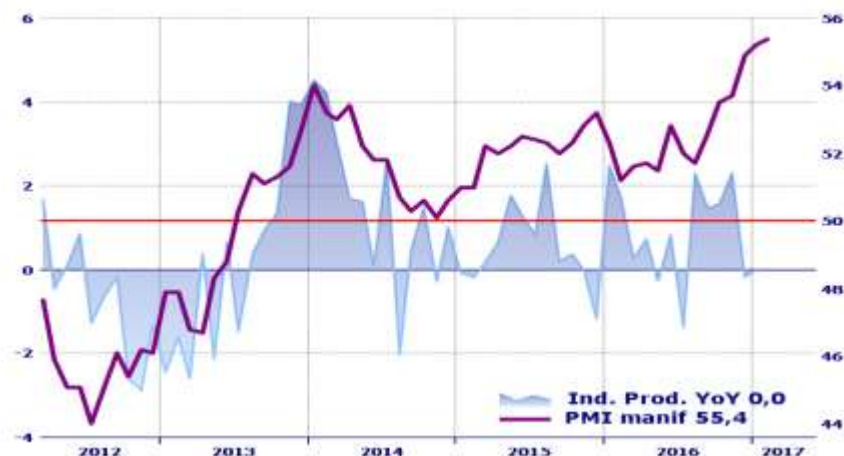
FRANCE



SPAIN



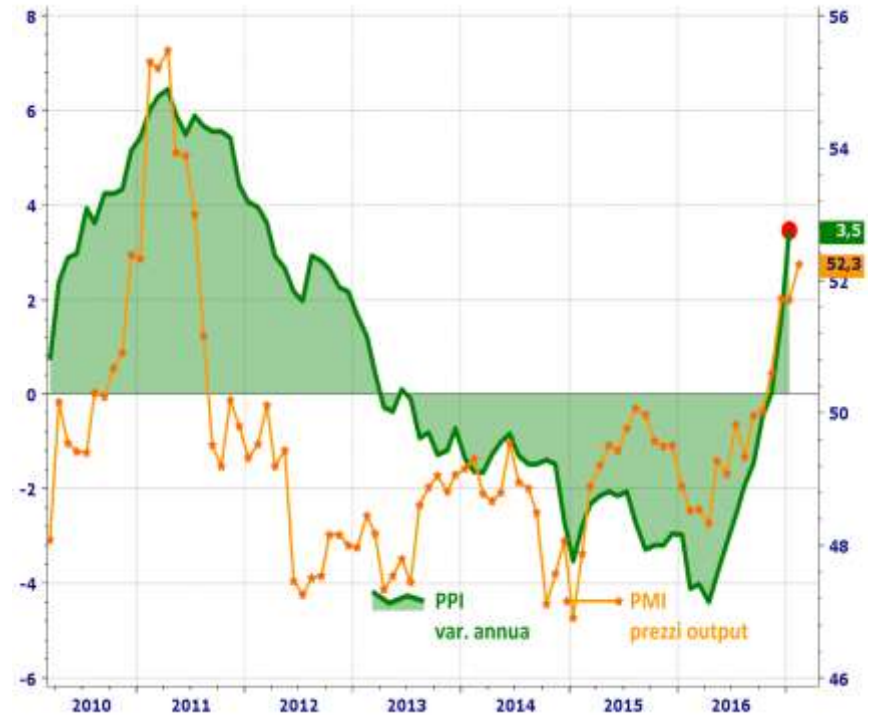
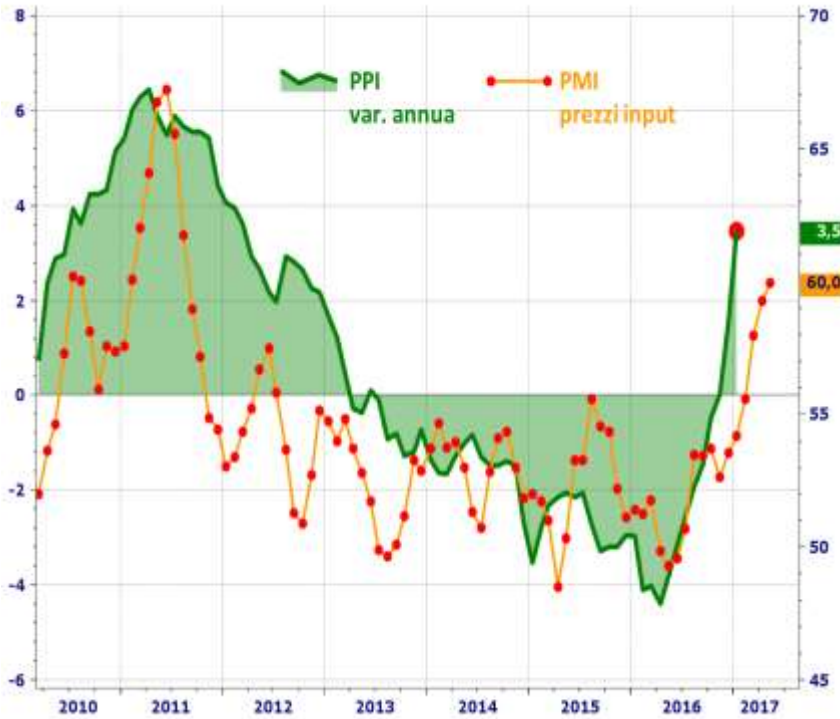
GERMANY



INFLATION

In January, the index of producer prices has accelerated significantly, from +1.6% to +3.5%, the greatest leap in four years. Leading PMI indexes signal pressure on prices, both upstream and downstream of the production process. Surveys on productive factors' costs and gross prices are growing for the first time since the 2011 peak.

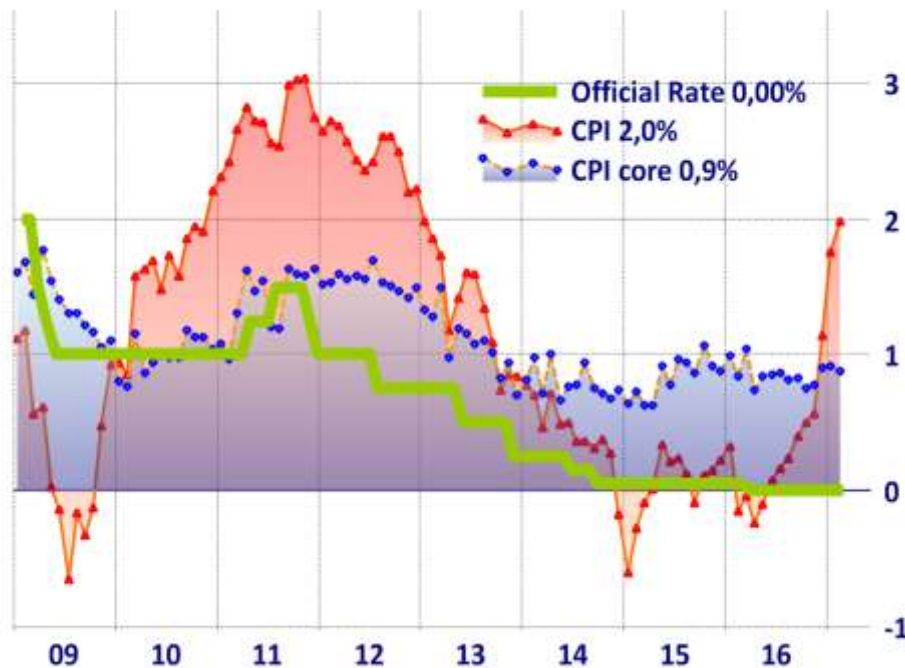
INFLATION AND SOURCE PRICES



In February, Eurozone's aggregate consumer inflation rate reached 2.0%, a four year high, in line with the ECB's target for the first time since the beginning of 2013! This, however, isn't so at the core level: the inflation rate net of its volatile components remains stable at 0.9%, for the third month in a row, signalling the absence of significant upward pressures.

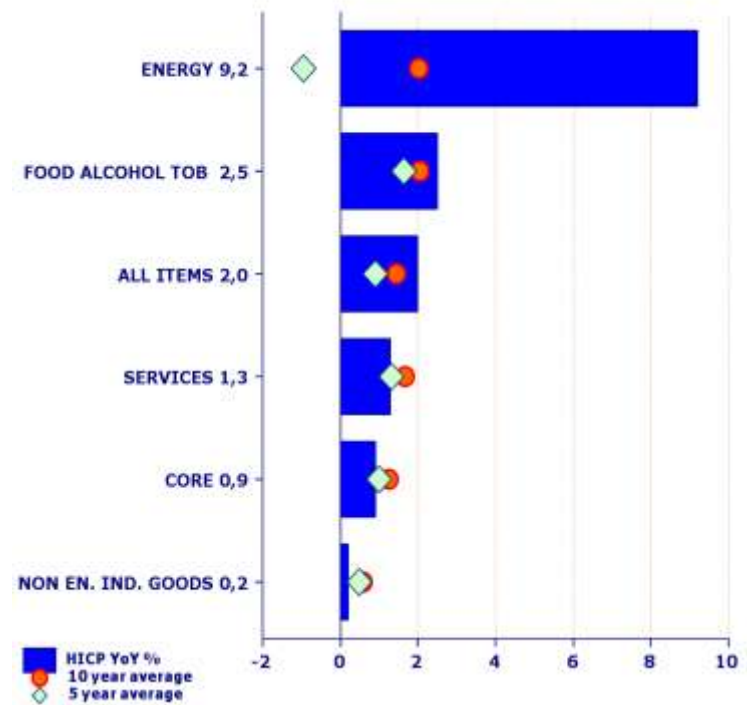
INFLATION AND POLICY RATE

Inflation indexes: YoY changes



INFLATION BY MACROSECTOR

YoY changes



INFLATION

The inflation increase is totally due to its non core components, food and energy, that recently have grown with an almost vertical trajectory. In terms of sectors, there is slight pressure on services, while industrial goods almost stagnate, with prices at a two year low.



INFLATION BY COUNTRY

The reflation process is systemic, but in Germany and Spain it has assumed very aggressive dimensions...

GERMANY

YoY data



FRANCE

YoY data



ITALY

YoY data



SPAIN

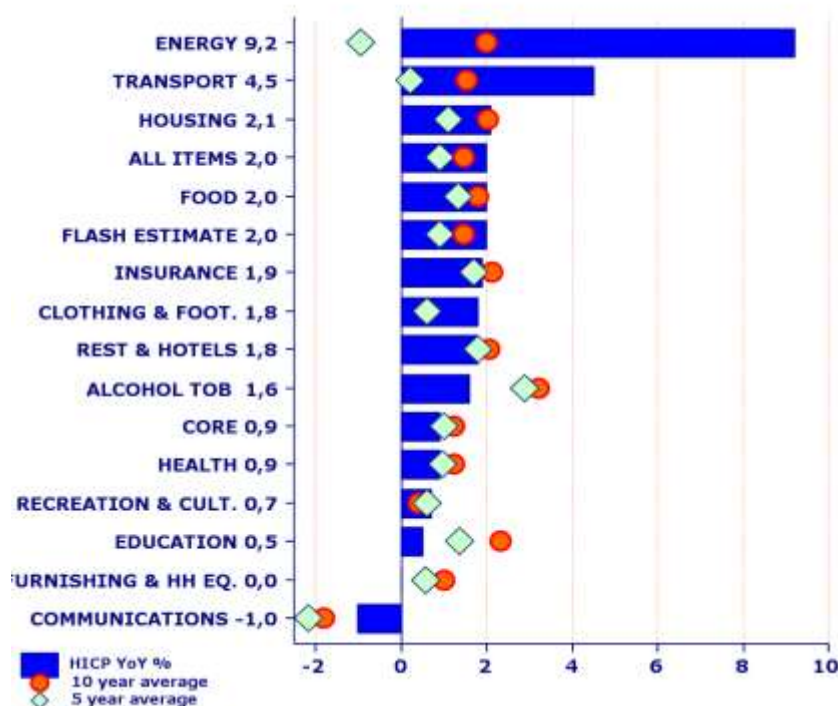
YoY data



As mentioned, energy and transport are the driving sectors, but with positive contributions from all sectors, except communications.

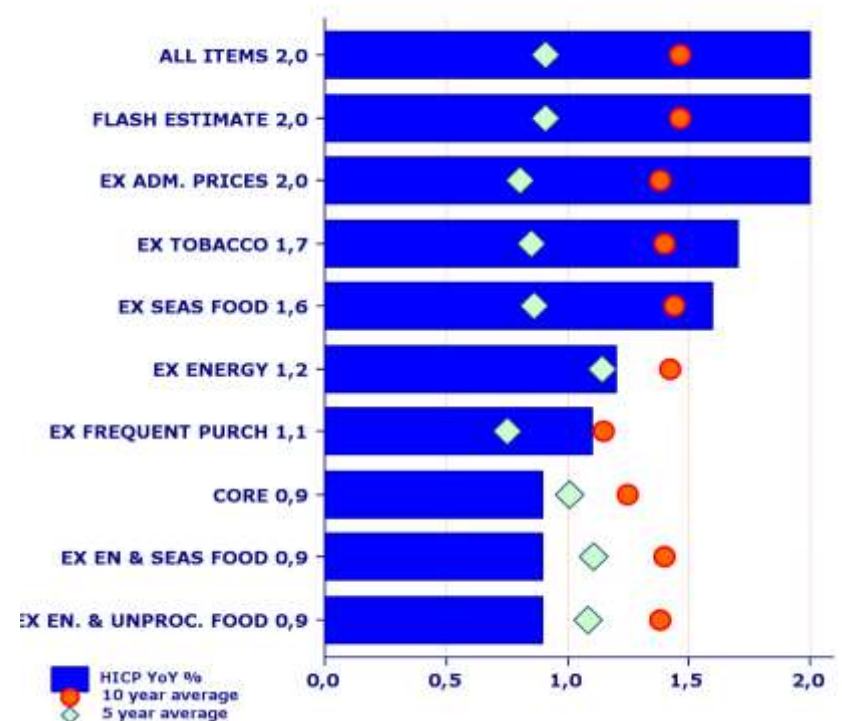
INFLATION BY SECTOR

changes



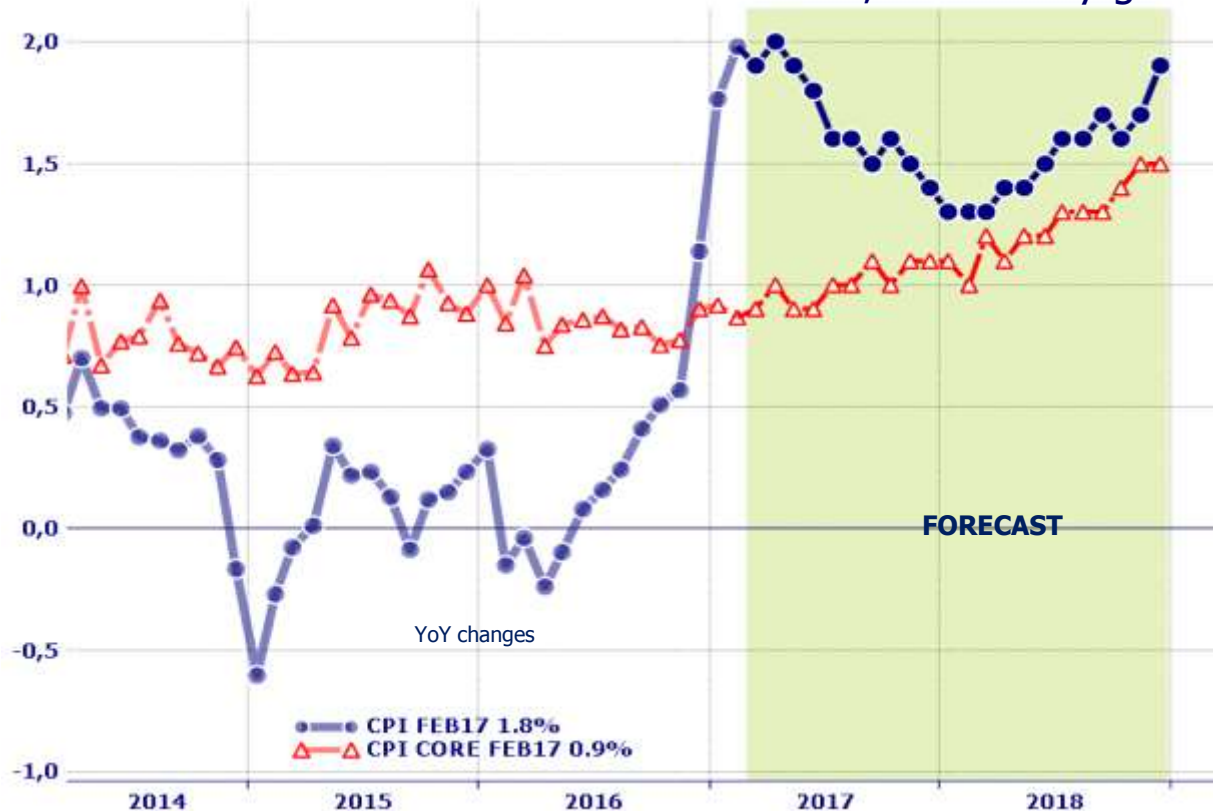
INFLATION BY TYPE

changes



INFLATION FORECASTS

The upward impulse on consumer prices, being wholly due to energy, is not sustainable, and we expect inflation to quickly abandon the 2% range. The declining trajectory will be even more evident at the end of the year, when the statistic effect of oil prices will invert direction. At the end of 2017, we forecast consumer price inflation again below 1.5%. Inflation will start to grow again gradually in 2018, with a stronger economy, the same that will finally strengthen the core rate. In terms of yearly average, generale inflation is forecast at 1.7% in 2017, while it's at 1.5% in 2018. The core rate forecasts are confirmed, with a very gradual increase.



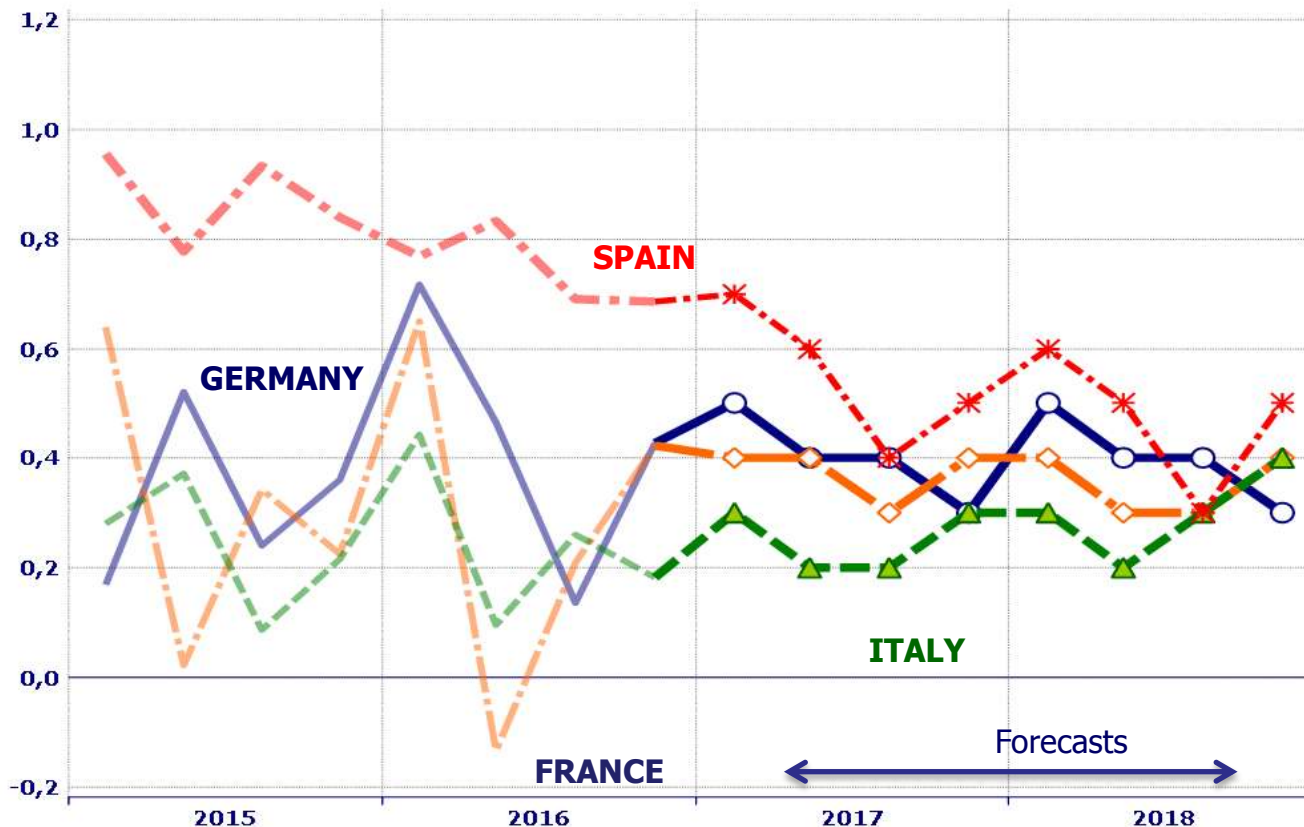
	CPI HEADLINE	CPI CORE
2015	0.0	0.8
2016	0.2	0.9
2017	1.7	1.0
2018	1.5	1.2

GROWTH FORECASTS

As mentioned, we expect a positive evolution for growth in 2017 and 2018, with greater convergence among economies, but Italy constantly lagging behind.

GDP, HISTORICAL RATES AND FORECASTS

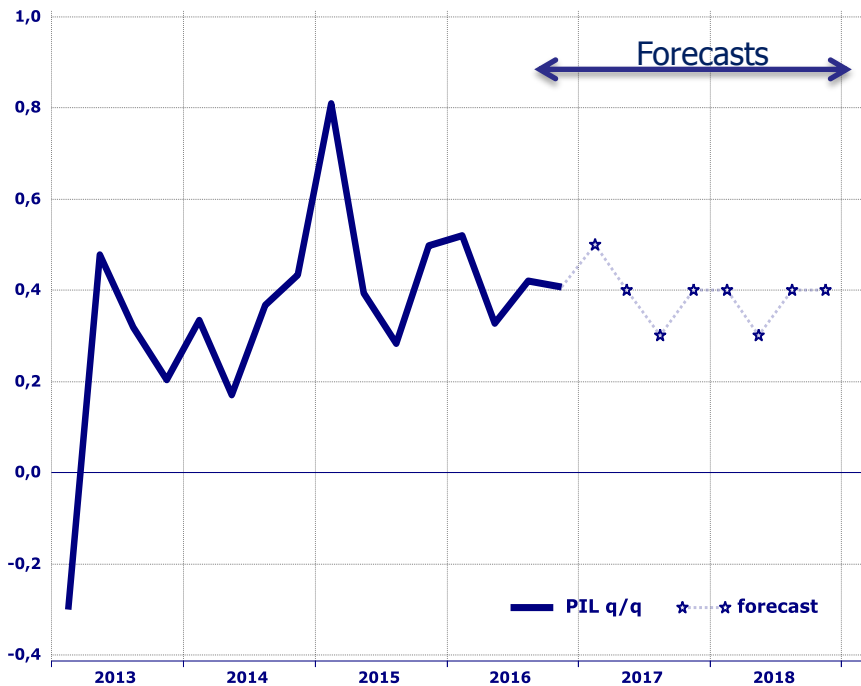
Quarterly rates, percentage values



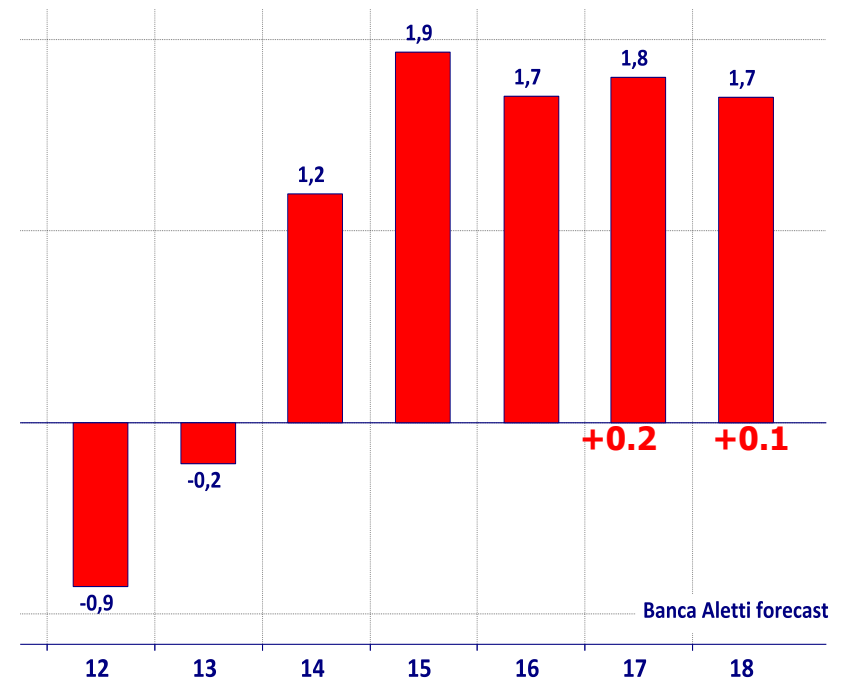
GROWTH FORECASTS

For the Eurozone, overall we expect growth of 1.8% in 2017 and 1.7% in 2018.

EUROZONE - GDP
Quarterly rates



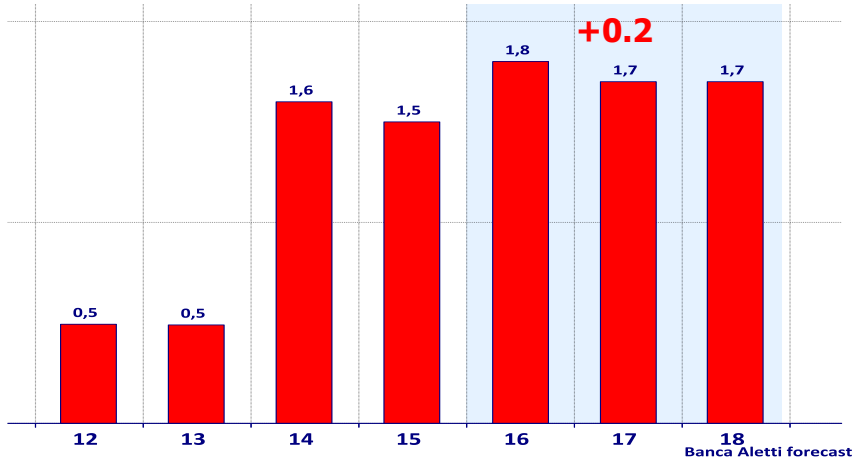
EUROZONE - GDP
Average yearly rates, % values



GROWTH FORECASTS

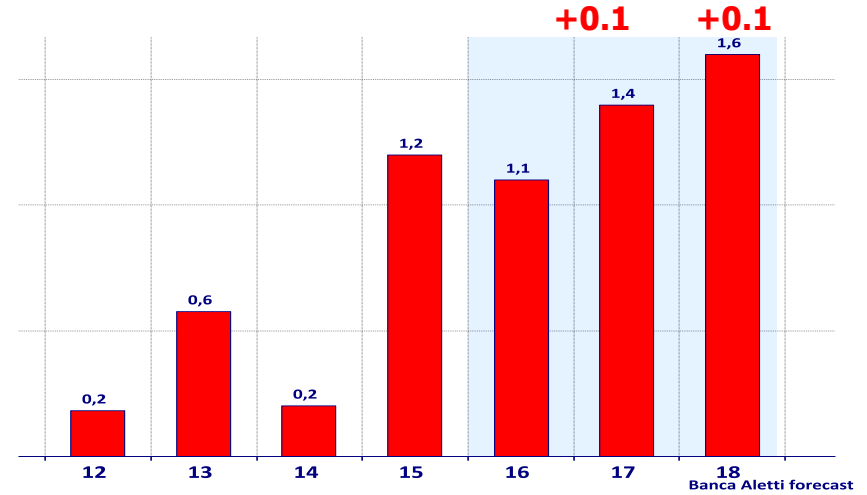
GERMANY

Average yearly growth rates - % values



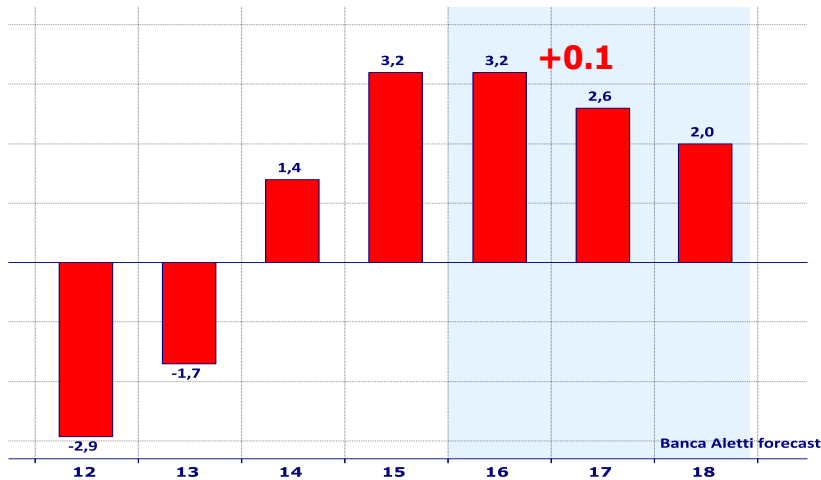
FRANCE

Average yearly growth rates - % values



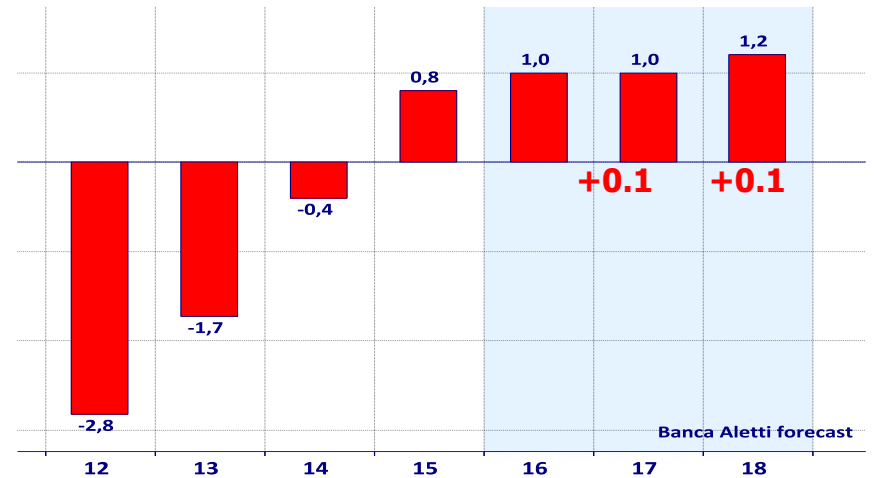
SPAIN

Average yearly growth rates - % values



ITALY

Average yearly growth rates - % values



9 March meeting: a two-faced Draghi

- **CONFIRMED POLICY'S EXPANSIVE ORIENTATION**

- Measures so far employed have been successful, they have preserved favourable conditions in an adverse scenario
- Downside risk persists, although in lesser form
- Gradual inflation recovery, above all in core inflation
- ECB hasn't discussed the exit strategy

- **POLICY'S EXPANSIVE BIAS: ECB ready to increase dimensions or acquisition amounts in case of need**

9 March meeting: a two-faced Draghi

- **LESS PRUDENT RHETHORIC: change of tones**

- Eurozone's risk equilibrium has improved, new stimulus measures aren't urgent
- No discussion on new TLTRO
- The hypothesis of modifying forward guidance, eliminating the reference to "low rates for long time, after the end of QE", was briefly considered
- Some members said rate increase before end of QE possible; brief discussion, without ample support.
- "The probability of a new rate cut has diminished"

9 March meeting: a two-faced Draghi

- INCREASE IN ECB GROWTH FORECASTS

GDP 2017 **1.8%** (1.7)
2018 **1.7%** (1.6)
2019 **1.6%**

- INCREASE IN ECB INFLATION FORECASTS

CPI 2017 **1.7%** (1.3)
2018 **1.6%** (1.5)
2019 **1.7%**

9 March Meeting

EUROZONE'S MONETARY POLICY POSSIBLE CHANGE

- Multiple signals of EQUILIBRIUM HIGHER THAN THE ECONOMIC SYSTEM
- Political uncertainty has prevented a greater change in rhetoric
- If after the good results in Dutch elections also in France risks are minimal, we expect:
 - JUNE 2017: NEW CHANGE IN ECB COMMUNICATION RHETHORIC AND FORMAL CHANGE IN FORWARD GUIDANCE
 - 2° SEMESTER 2017: EXIT STRATEGY DISCUSSION BEGINS
 - MARCH 2018: Possibile RATE INCREASE

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