



Global Economy Report

January-February 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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EXECUTIVE SUMMARY

According to the World Bank experts, international trade stagnation, low investment spending and high political uncertainty determine a prudent outlook on global growth, with downward risks.

WORLD BANK – GROWTH FORECASTS

Yearly average growth rates calculated with fixed prices based on \$ 2010

Global Economic Prospects Jan 2017	2014	2015	2016e	diff.	2017e	diff.	2018e	diff.	2019e
GDP (% y/y)									
GLOBAL GROWTH	2.7	2.7	2.3	-0.1	2.7	-0.1	2.9	-0.1	2.9
ADVANCED ECONOMIES	1.9	2.1	1.6	-0.1	1.8	-0.1	1.8	-0.1	1.7
UNITED STATES	2.4	2.6	1.6	-0.3	2,2*	0.0	2,1*	0.0	1,9*
EURO AREA	1.2	2.0	1.6	0.0	1.5	-0.1	1.4	-0.1	1.4
JAPAN	0.3	1.2	1.0	0.5	0.9	0.4	0.8	0.1	0.4
UNITED KINGDOM	3.1	2.2	2.0	0.0	1.2	-0.9	1.3	-0.8	1.3
TURKEY	5.2	6.1	2.5	-1.0	3.0	-0.5	3.5	-0.1	3.7
EMERGING ECONOMIES	4.3	3.5	3.4	-0.1	4.2	-0.1	4.6	0.0	4.7
CHINA	7.3	6.9	6.7	0.0	6.5	0.0	6.3	0.0	6.3
INDIA	7.2	7.6	7.0	-0.6	7.6	-0.1	7.8	0.1	7.8
BRAZIL	0.5	-3.8	-3.4	0.6	0.5	0.7	1.8	1.0	2.2
RUSSIA	0.7	-3.7	-0.6	0.6	1.5	0.1	1.7	-0.1	1.8
INDONESIA	5.0	4.8	5.1	0.0	5.3	0.0	5.5	0.0	5.5
SOUTH AFRICA	1.6	1.3	0.4	-0.2	1.1	0.0	1.8	-0.2	1.8

diff. = revision wrt previous Outlook (June 2016)

* = US forecast does not consider possible impact of policy measures taken by the new administration

EXECUTIVE SUMMARY

The IMF's forecasts are overall in line with the World Bank's, although slightly more optimistic.

IMF – GLOBAL ECONOMIC GROWTH

Average yearly changes- World Economic Outlook - Update, January 2017

	2012	2013	2014	2015	2016e	2017e	diff.	2018e	diff.
GDP (% Y/Y)									
GLOBAL GROWTH	3.4	3.3	3.4	3.2	3.1	3.4	0.0	3.6	0.0
ADVANCED ECONOMIES	1.2	1.4	1.9	2.1	1.6	1.9	0.1	2.0	0.0
US	2.3	2.2	2.4	2.6	1.6	2.3	0.1	2.5	0.4
EUROZONE	-0.8	-0.3	0.9	2.0	1.7	1.6	0.1	1.6	0.0
GERMANY	0.7	0.2	1.6	1.5	1.7	1.5	0.1	1.5	-0.1
FRANCE	0.0	0.3	0.6	1.3	1.3	1.3	0.2	1.6	0.0
ITALY	-2.4	-1.7	-0.3	0.7	0.9	0.7	-0.2	0.8	-0.3
SPAIN	-1.6	-1.2	1.4	3.2	3.2	2.3	0.1	2.1	0.2
JAPAN	1.5	1.6	0.0	1.2	0.9	0.8	0.2	0.5	0.0
UK	0.3	1.7	3.1	2.2	2.0	1.5	0.4	1.4	-0.3
CANADA	1.7	2.0	2.5	0.9	1.3	1.9	0.0	2.0	0.1
EMERGING ECONOMIES	5.1	5.0	4.6	4.1	4.1	4.5	-0.1	4.8	0.0
RUSSIA	3.4	1.3	0.7	-3.7	-0.6	1.1	0.0	1.2	0.0
CHINA	7.7	7.8	7.3	6.9	6.7	6.5	0.3	6.0	0.0
INDIA	4.7	6.9	7.2	7.6	6.6	7.2	-0.3	7.7	0.0
BRAZIL	1.0	2.7	0.1	-3.8	-3.5	0.2	-0.3	1.5	0.0
MEXICO	4.0	1.4	2.2	2.6	2.2	1.7	-0.6	2.0	-0.6
SOUTH AFRICA	2.5	2.2	1.6	1.3	0.3	0.8	0.0	1.6	0.0

EXECUTIVE SUMMARY

- US income accelerated at 3.5% annualised in the third quarter of the year, thanks to a new upward revision by three tenths of a point, mostly due to private consumption.
- Macroeconomic data relative to the US continue to be definitely good and robust, overall. In particular, households' confidence grew at new period highs, supporting consumption. The labour market is solid and close to full employment. Industry is accelerating in a progressively more intense measure. We keep our GDP growth forecast for the next two year period above consensus by around three/four tenths of a point, both in 2017 (2.6%), and in 2018 (3.0%).
- Inflation is overall increasing, both upstream (at a two year high) and as consumer prices (highest since 2014). Since the beginning of 2017, the trend price growth rate should remain above 2%.
- In this report we focus on the economic conditions in the United States.

EXECUTIVE SUMMARY

- In the Eurozone, the leading indicators' robust tone is compatible with the hypothesis of acceleration of growth in the final part of 2016 and in the first months of 2017.
- The unemployment rate is below 10%, lowest since 2009. There are signals of acceleration in industrial activity and of retail sales' adjustment trajectory stabilisation.
- The most evident phenomenon is the system's aggressive reflation. Consumer price index at the end of 2016 was finally over 1%, still stimulated mainly by the energy component's favourable base effects. On the core level this phenomenon is barely visible. In Germany inflation reached 1.7%, much higher than expected, but likely only a temporary phenomenon.

EXECUTIVE SUMMARY

- The Japanese economy has seen its propulsive impulse decrease, after the national accounting data were substantially revised, indicating third quarter growth at 1.3%, from previous 2.2%. This downward revision however is due to the negative impact of inventories, whereas domestic and, especially, foreign demand are a positive contribution. Now we expect a bland deceleration on a quarterly basis, with yearly growth of about 1%.
- In the third quarter, Chinese yearly growth was at 6.7% while on a quarterly basis it was at 1.8%. These values are consistent with the 6.5-7% growth target determined by the Government. Public spending, real estate and consumption push the system, but also imbalances are increasing. For example, since mid 2015, the rate of monetary mass increase has accelerated sensibly, also above 25% (M1 component), then slowed down.

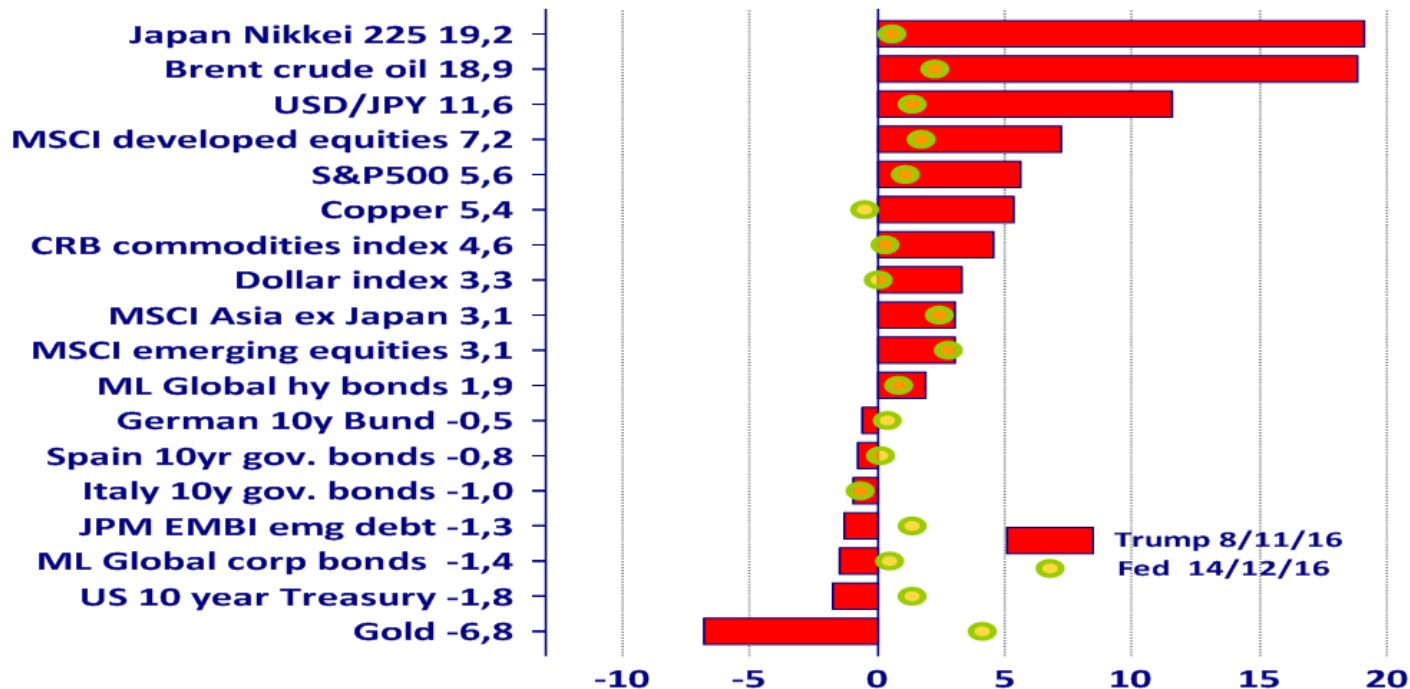
The Economic Outlook for the United States

PRESIDENT TRUMP

On January 20 Donald J. Trump becomes President of the United States of America. Since the election's results in November there have been situations of tension and embarrassment: his tweets, pressure on auto industry, but above all the relations with Security Agencies, under stress due to the different perspective on Russia's hackers.

TRUMP PRESIDENCY, FED & EFFECTS ON MARKETS

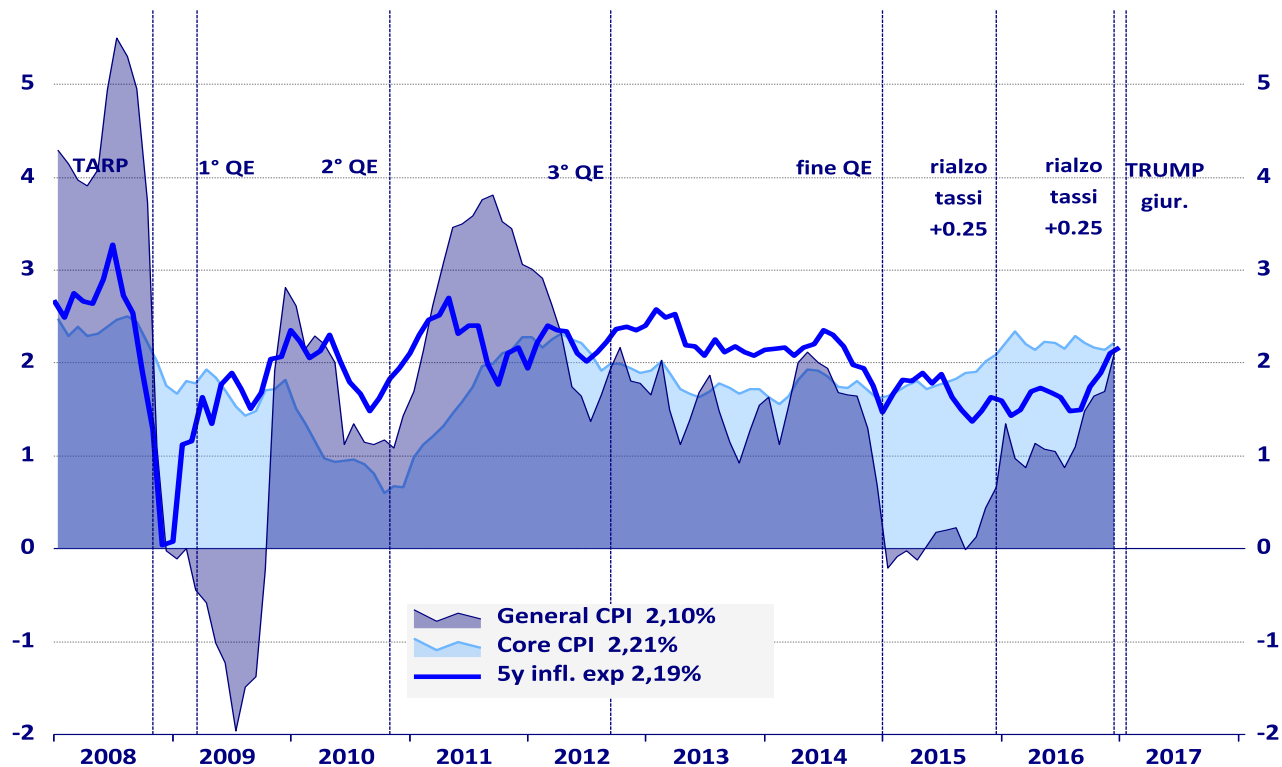
% changes since election day and increase in official rates



Trump's economic programme (increase in public spending, tax cuts, commercial protectionism) will influence an economic cycle already projected toward growth, with effects on inflation that are to be seen

PRESIDENT TRUMP – PROGRAMME

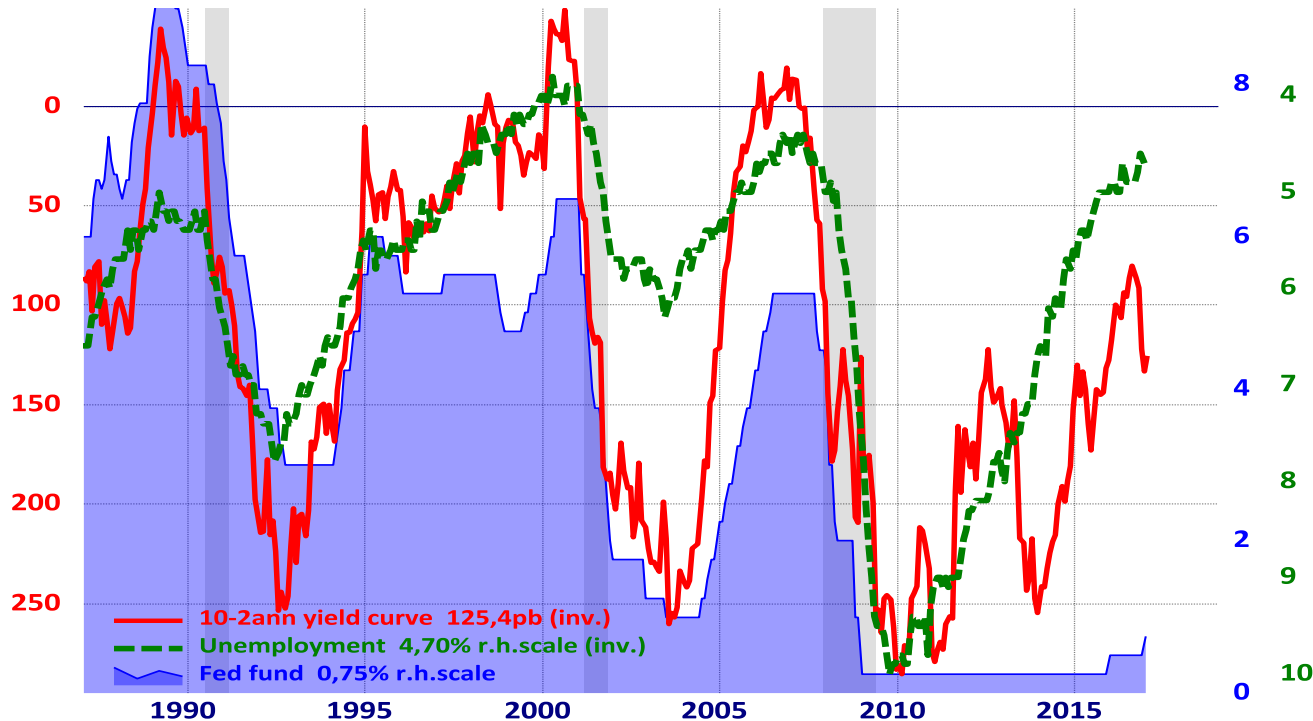
Principal points of Trump's economic programme



Compared to the double mandate regarding growth and price stability, the Fed's commitment should focus on the second target, with uncertainty on public accounts also forcing the focus on interest rates.

PRESIDENT TRUMP & EFFECTS ON MARKETS

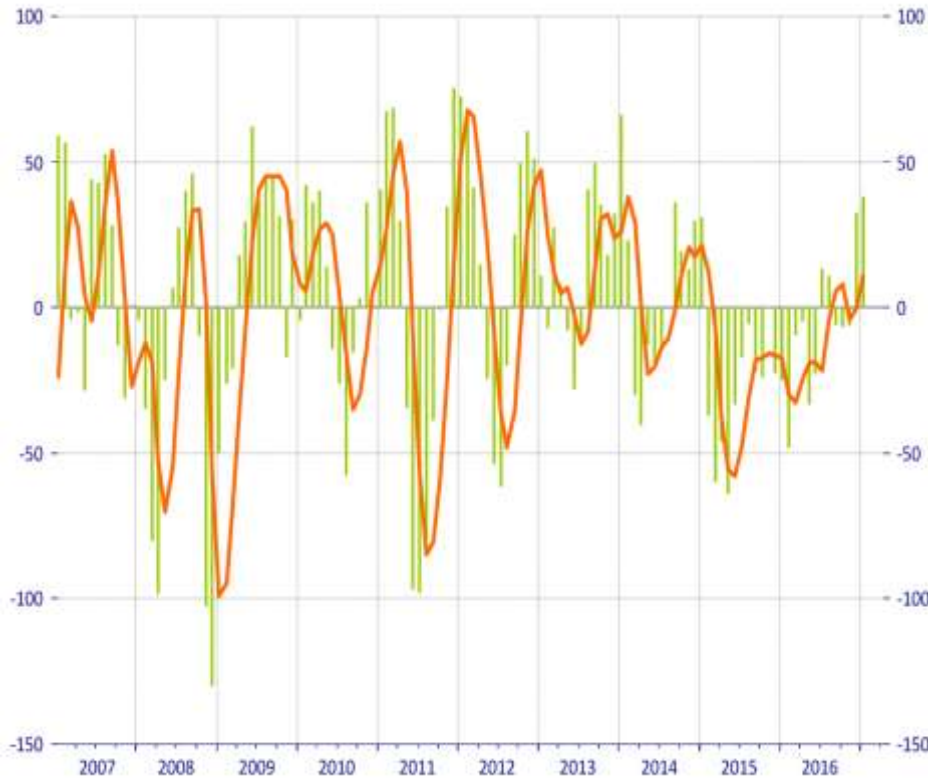
Principal points of Trump's economic programme



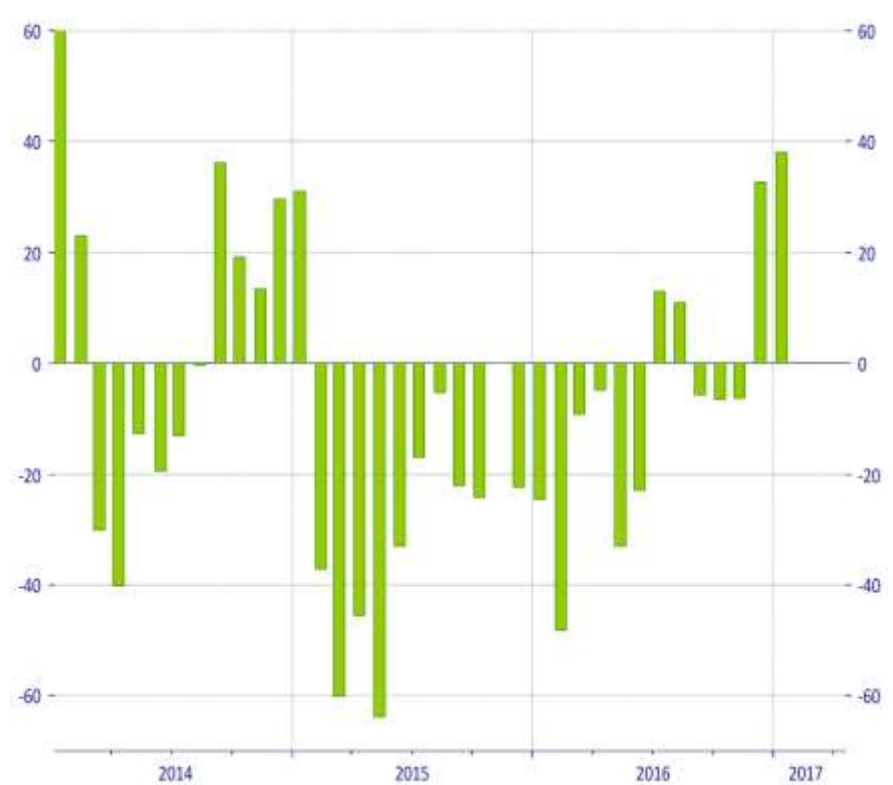
SURPRISE INDEX

In terms of economic conditions, at the beginning of the new year, the flow of macroeconomic data confirms a sustained tone. The positive surprise effect reached the highest level of the past two years.

SURPRISE INDEX – LONG TERM



SURPRISE INDEX – SHORT TERM

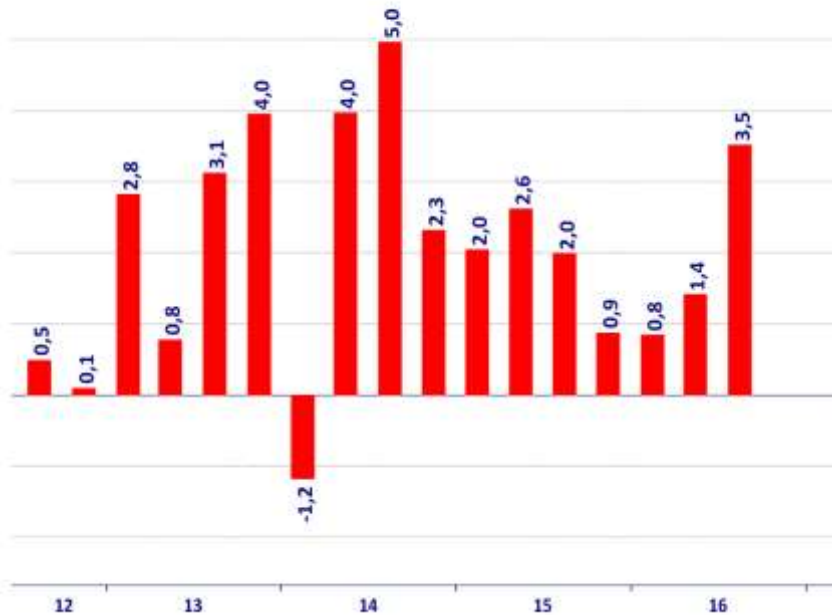


GROWTH IN Q3-16

The US economy's third quarter growth was upward revised by a further three tenths at 3.5%, a high pace that is much different from the disappointing first semester. The current quarterly growth rate is at a two year high. The revision makes yearly growth also more significant, at 1.7%, the highest value since the end of 2015.

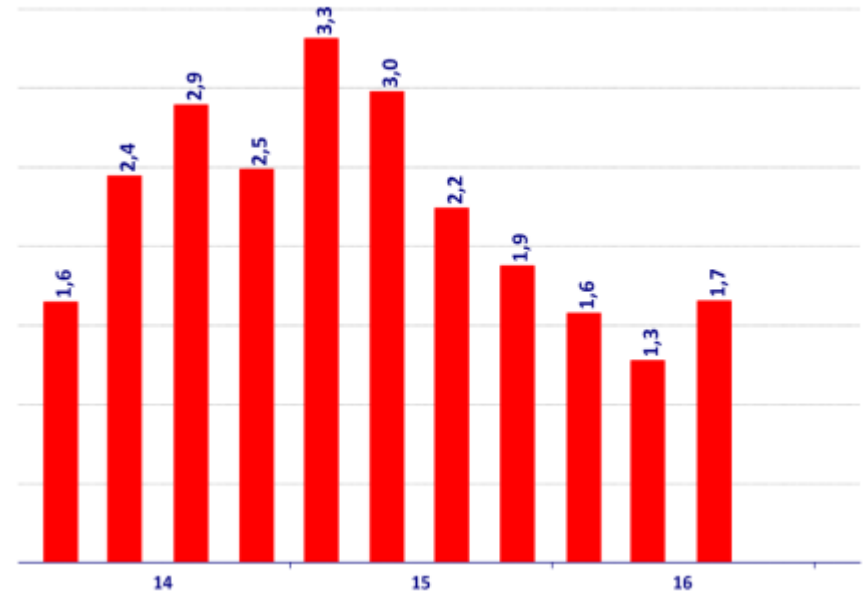
USA – GDP Q2-16

annualised quarterly rates – values %



USA – GDP Q2-16

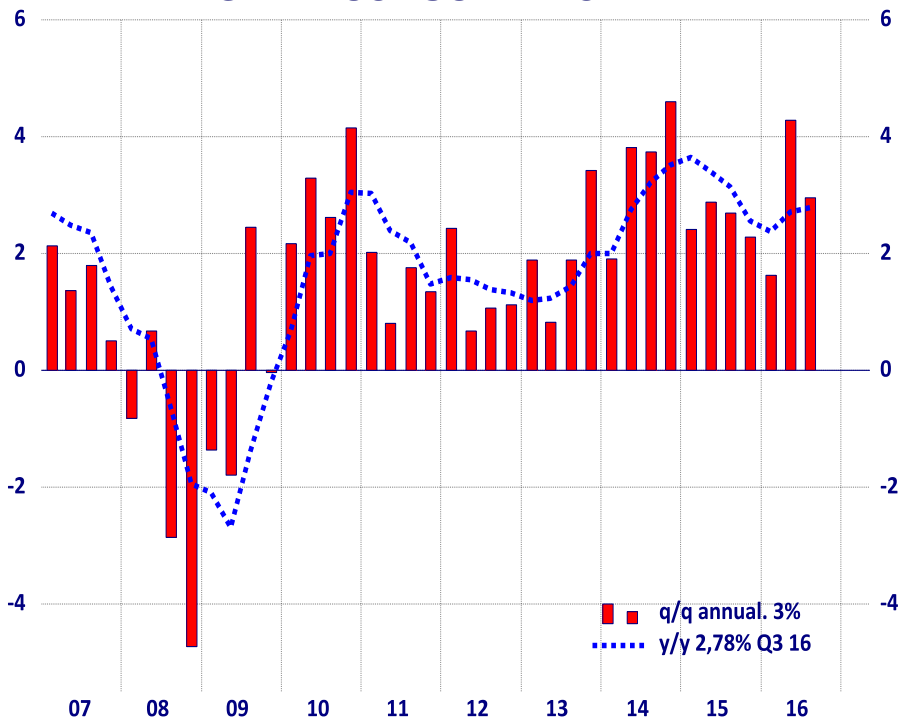
trend rates - values %



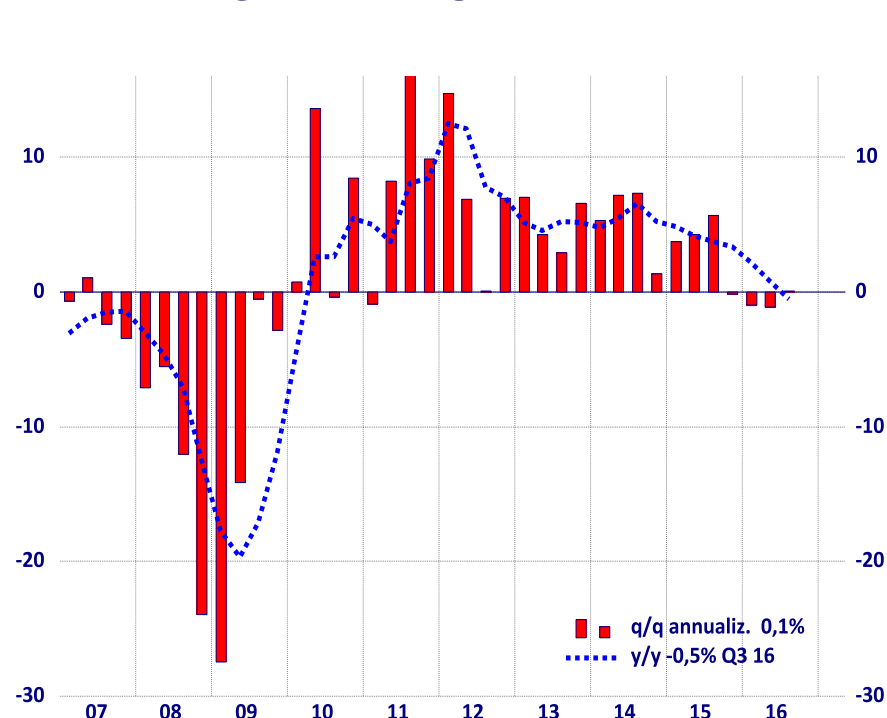
GROWTH IN Q3-16

After the strong acceleration in the second quarter, the increase in consumption was about 3% annualised. Internal demand is still lacking investment, practically null after three consecutive decreases.

GDP – CONSUMPTION



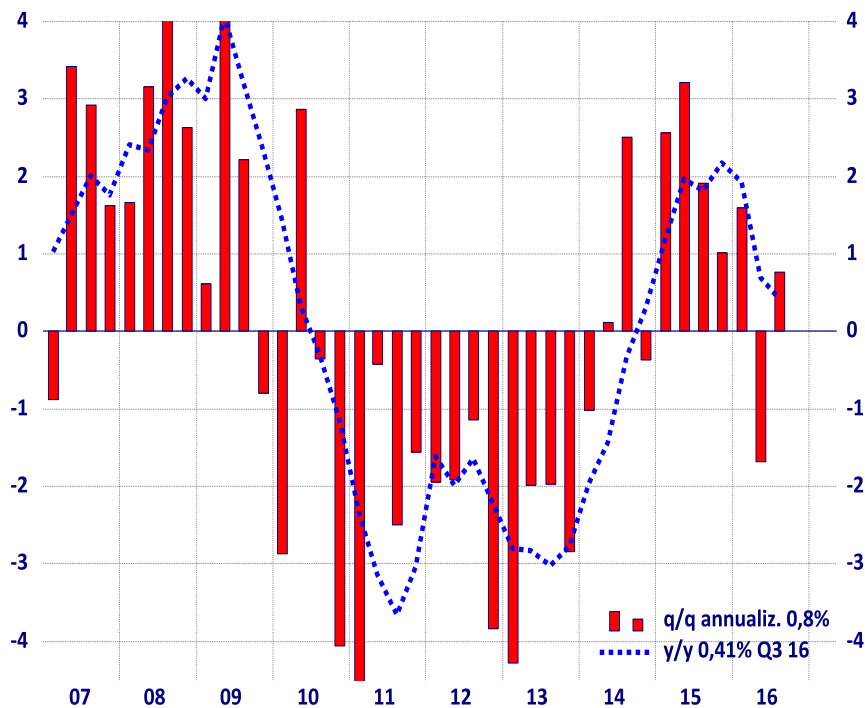
GDP – INVESTMENT



GROWTH IN Q3-16

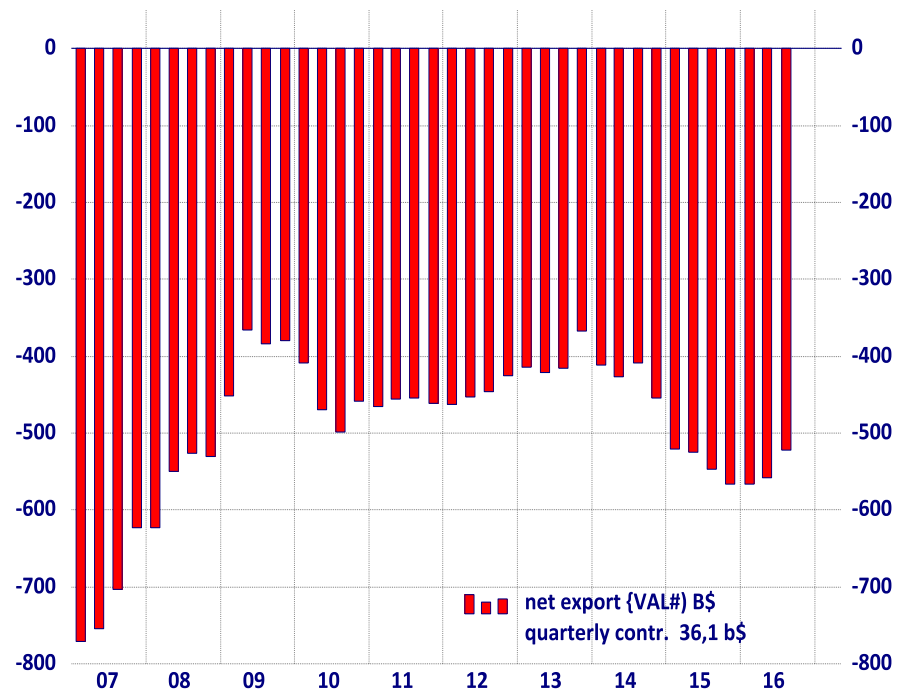
Public spending temporarily rebounded after the drop in the second quarter. Net foreign trade reduced the unbalance by over 36 bn, while stocks increased GDP by over 7bn \$.

GDP – PUBLIC SPENDING



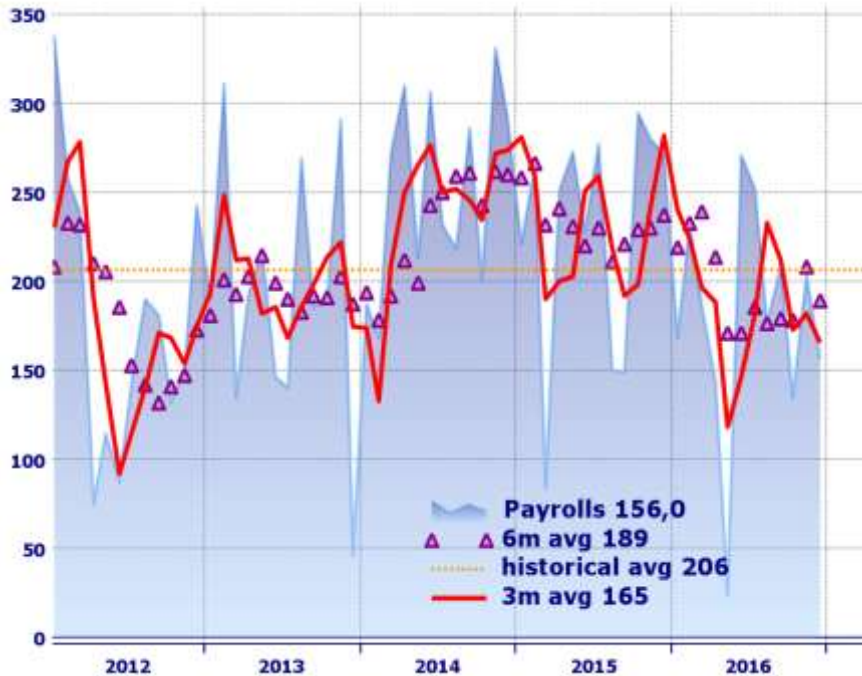
GDP – NET FOREIGN TRADE

Values in bn \$

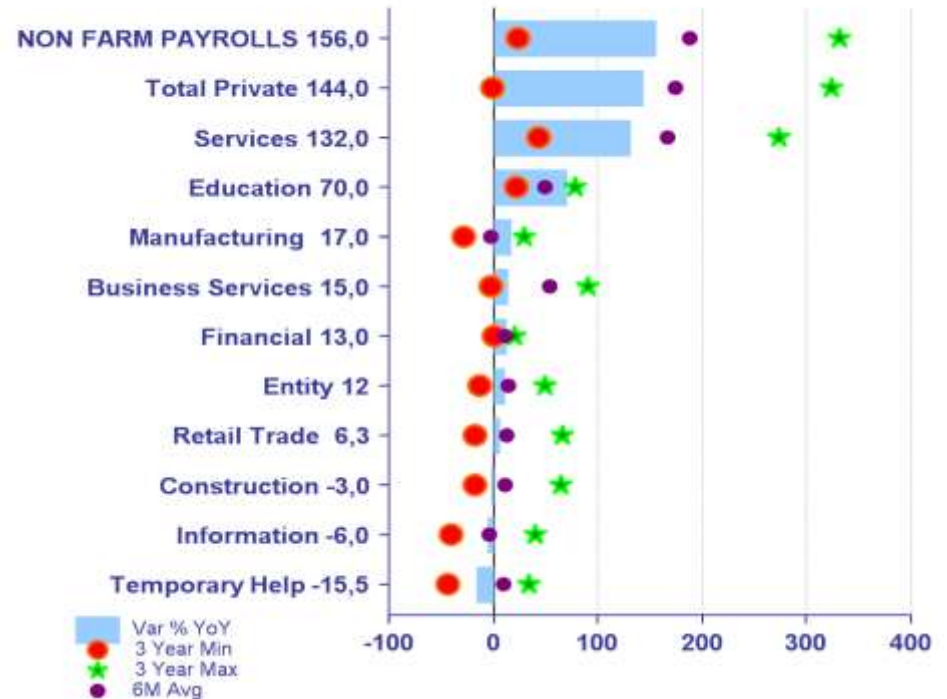


In December the number of new payrolls grew by 156 K units, 20 K lower than expected, but actually the previous two months' data were higher by the same amount. In 2016 new jobs were over 2 million (2.157.000).

PAYROLLS: TOTAL



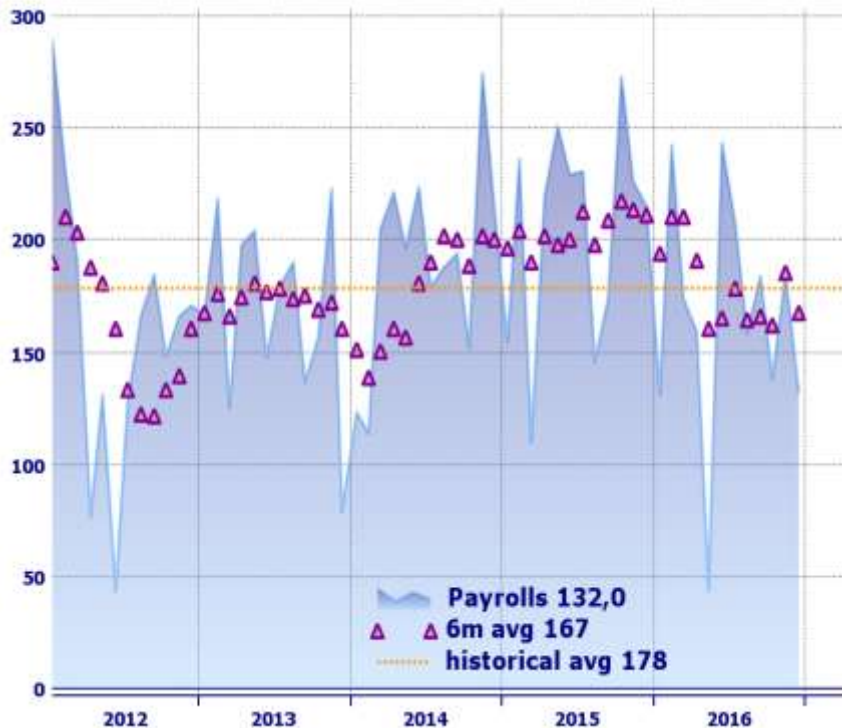
PAYROLLS: BY SECTOR



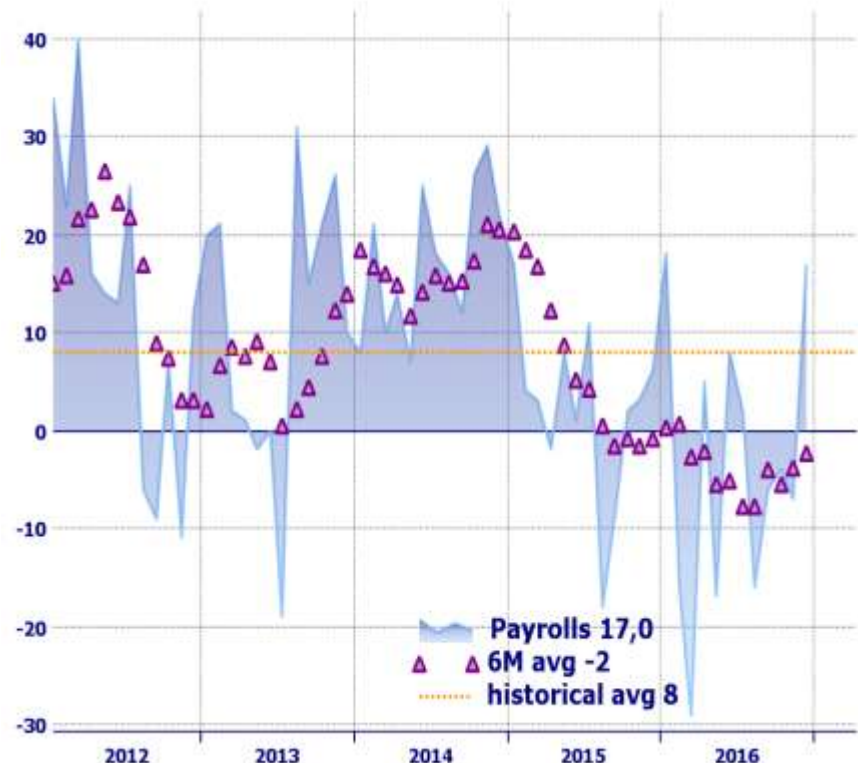
LABOUR MARKET

Services' sector has given a positive contribution to occupation, although with a blander rhythm (132 K). However, the lower intensity has been compensated for by Manufacturing's higher gains (17 K, one year high). Weakly negative contribution from Construction.

PAYROLLS: SERVICES



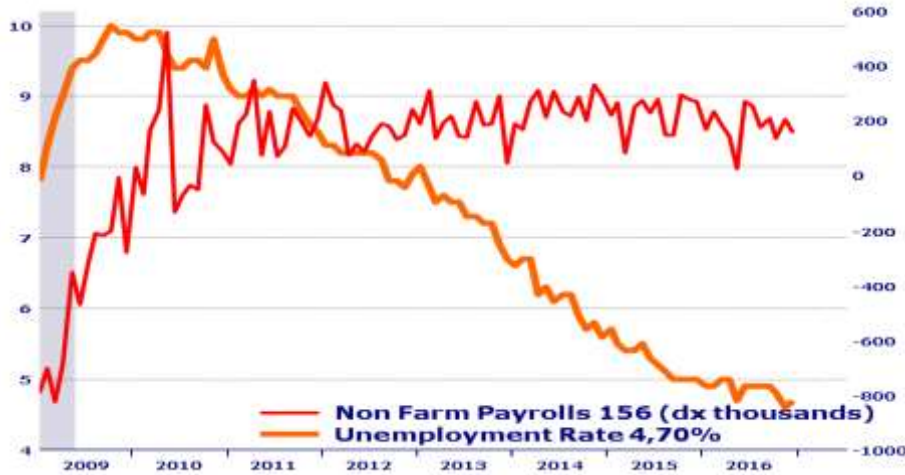
PAYROLLS: MANUFACTURING



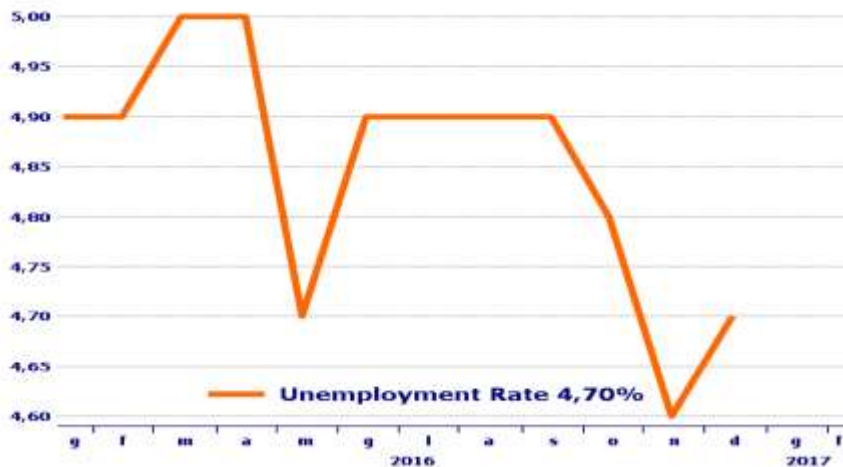
LABOUR MARKET

The labour market is at its long term equilibrium, with unemployment at 4.7%, lowest since 2007.

UNEMPLOYMENT AND PAYROLLS



UNEMPLOYMENT AND EQUILIBRIUM

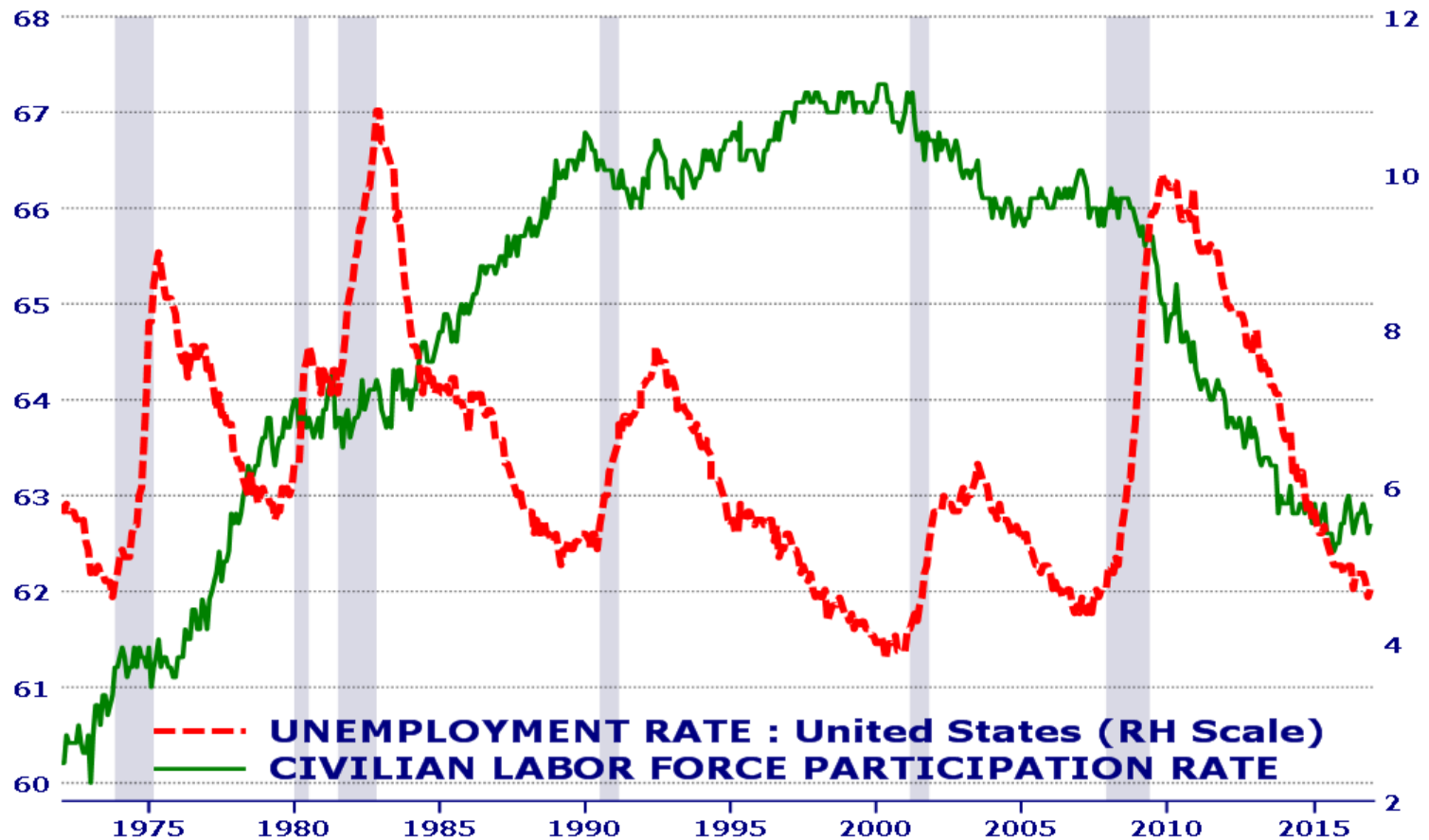


EMPLOYED AND PARTICIPATION



LABOUR MARKET

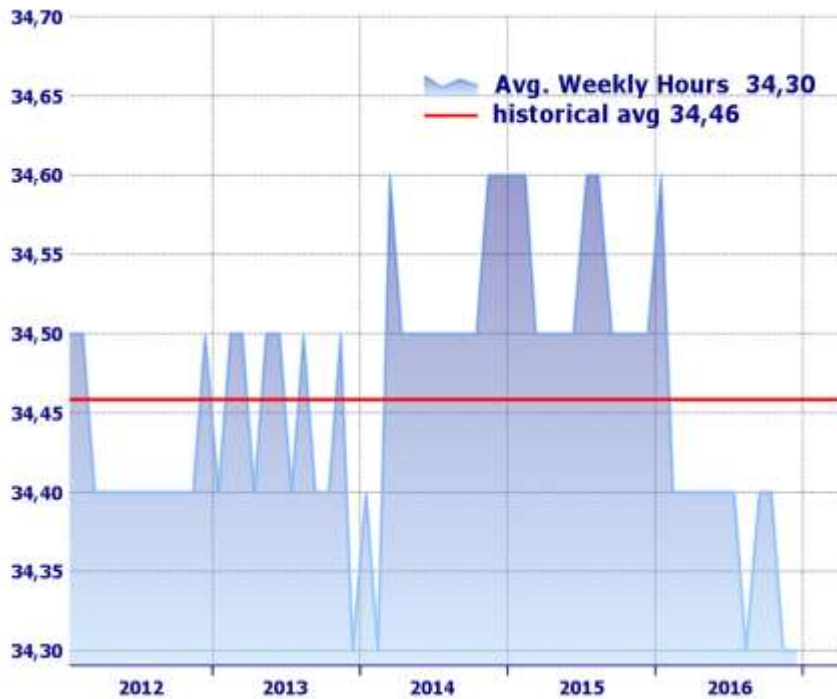
The fall in unemployment was favoured by the decrease in participation rate, at 62.7%, closest to the lowest value since 1978. Participation rate is a variable that moves in macroperiods. The declining phase of the past five years probably is due to baby-boomers' retirement.



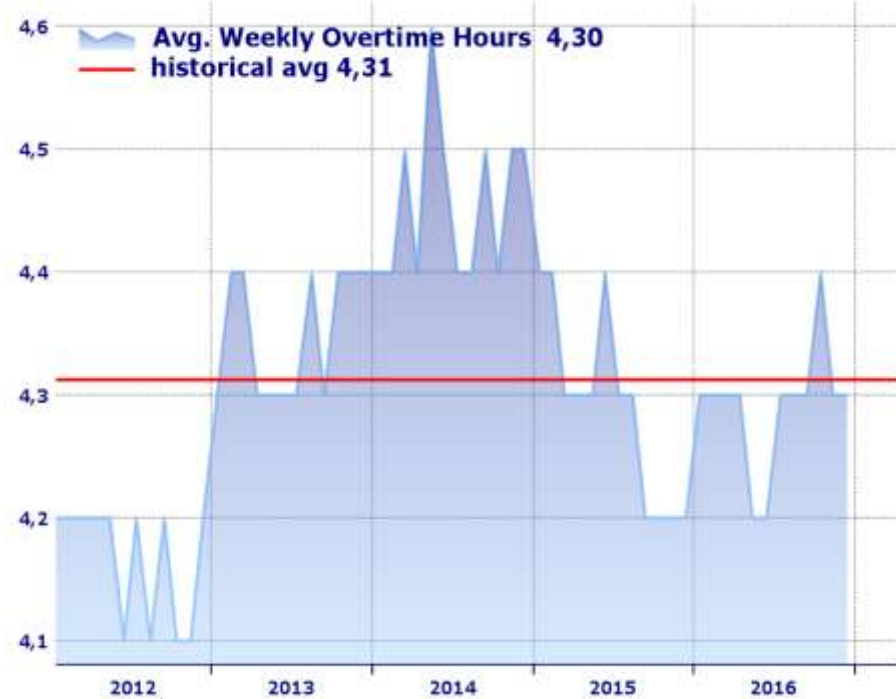
LABOUR MARKET

Average weekly hours are stable compared to the previous month.

AVG. WEEKLY HOURS



OVERTIME HOURS



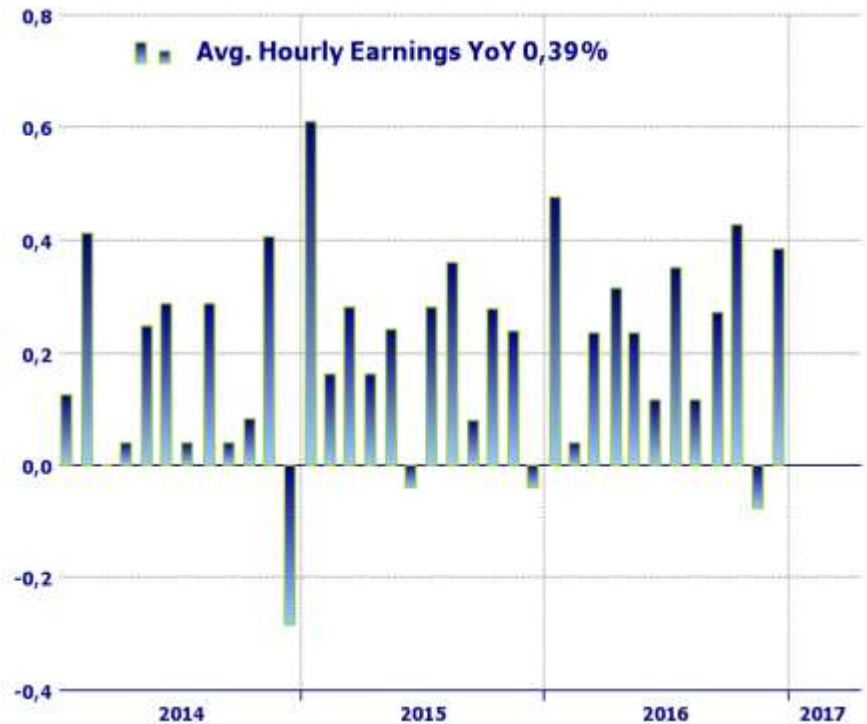
LABOUR COST

Average hourly earnings grew by 2.9% in one year, the highest growth rate since 2009, when the trend was strongly decreasing. In any case, data indicate a positive pressure on the system's earnings.

AVERAGE HOURLY WAGES

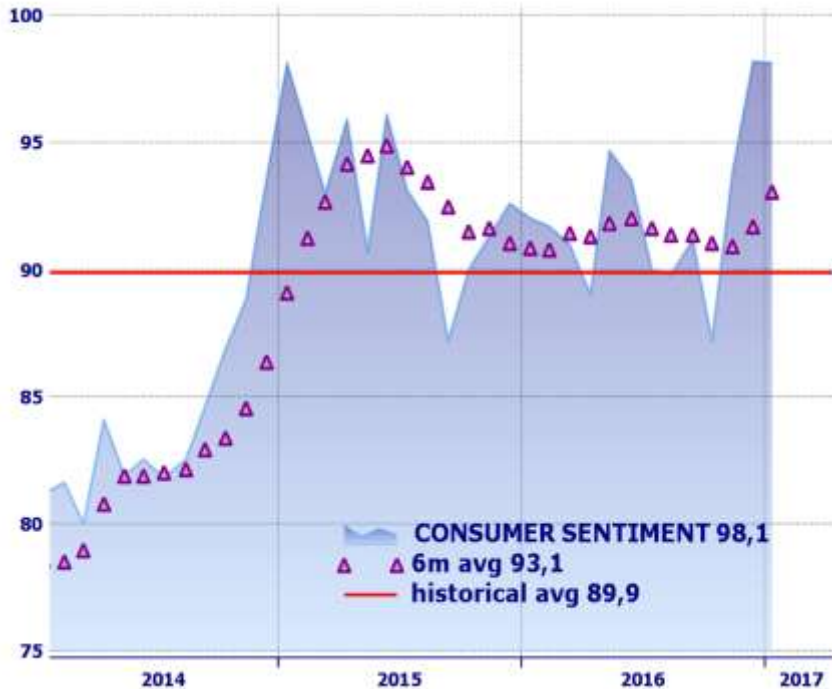


AVG. HOURLY WAGES: SHORT TERM

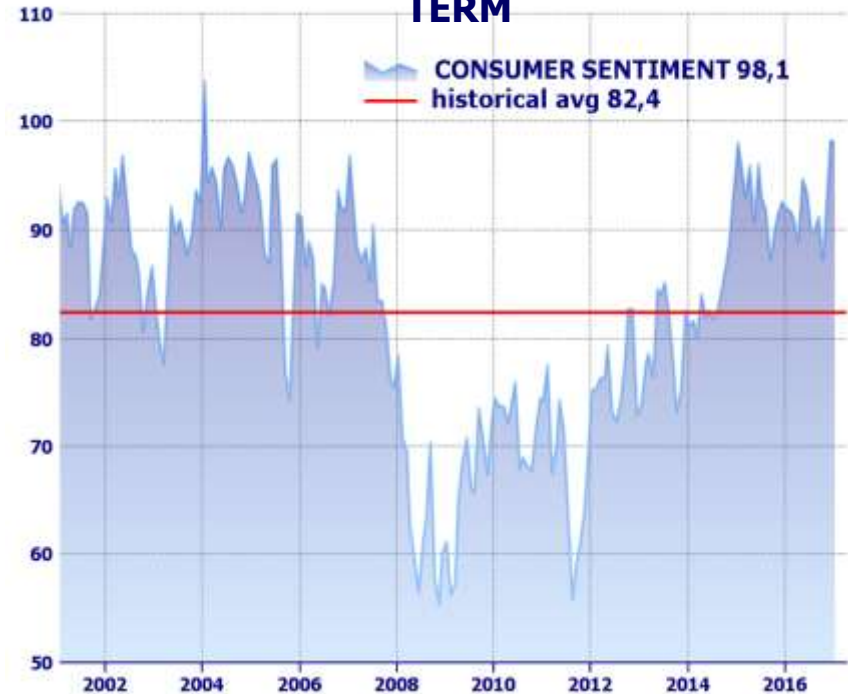


The University of Michigan survey signals consumer confidence at record levels at the end of 2016, the highest of the past twelve years. The preliminary January figure confirms the extraordinary vigour of households' sentiment.

MICHIGAN: GENERAL INDEX

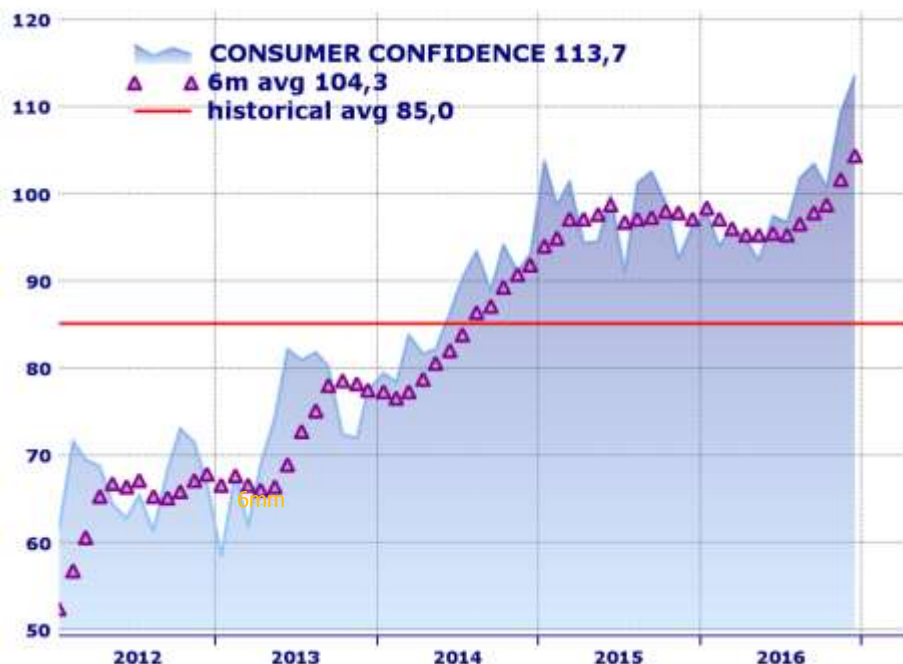


MICHIGAN: GENERAL INDEX, LONG TERM



Another similar vigorous leap in consumer confidence comes from the Conference Board survey, that indicates the highest sentiment level since 2001. Expectations, in this case, are the trigger: it's the highest since 2004, which was reached at the peak of a strong acceleration that has few equals in the system's recent history.

CONFERENCE BOARD



CONFERENCE BOARD : EXPECTATIONS



Retail sales have grown by 0.6% in December, a strong pace that results in a 4.1% yearly increase (highest rhythm of the past two years). The core aggregate – that excludes auto, energy, building materials and restaurants - has more modest dynamics, but however demonstrates the high level of domestic spending.

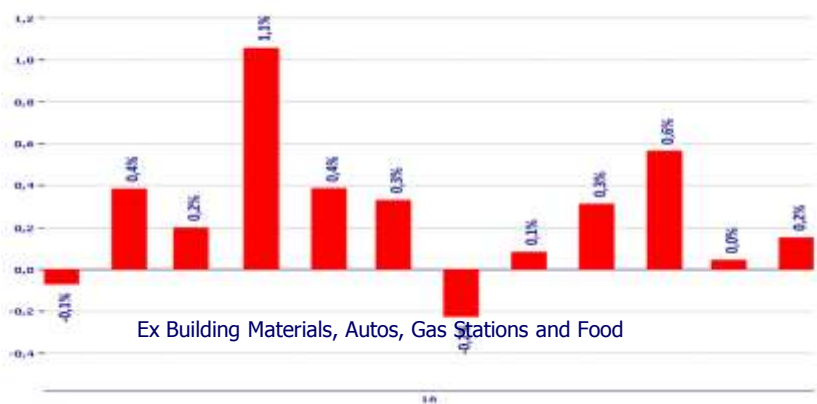
RETAIL SALES – TOTAL (MoM)



RETAIL SALES – TOTAL (YoY)



RETAIL SALES – CONTROL GROUP (MoM)



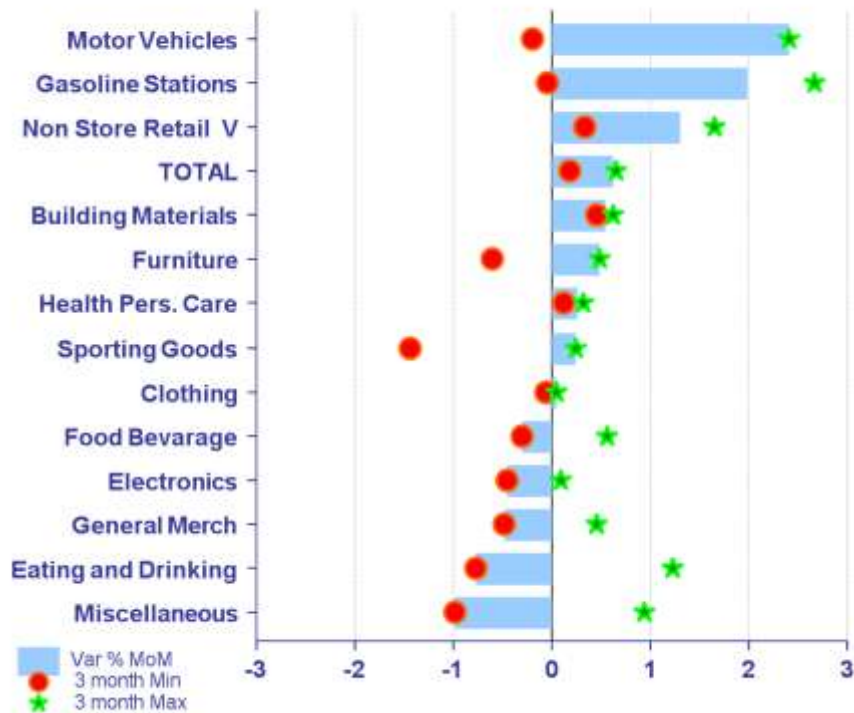
RETAIL SALES – CONTROL GROUP (YoY)



Auto, gasoline and building materials are the factors that contributed the most to growth at the end of 2016. The December figure is in any case to be considered in a constant and robust growth of households' spending.

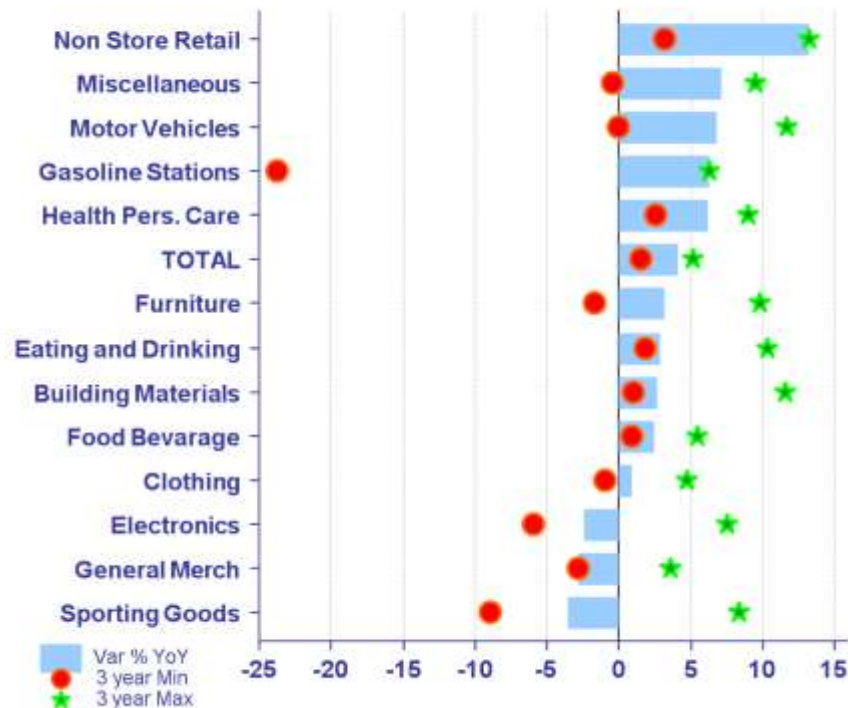
RETAIL SALES – MACROCLASSES

Monthly survey



RETAIL SALES – MACROCLASSES

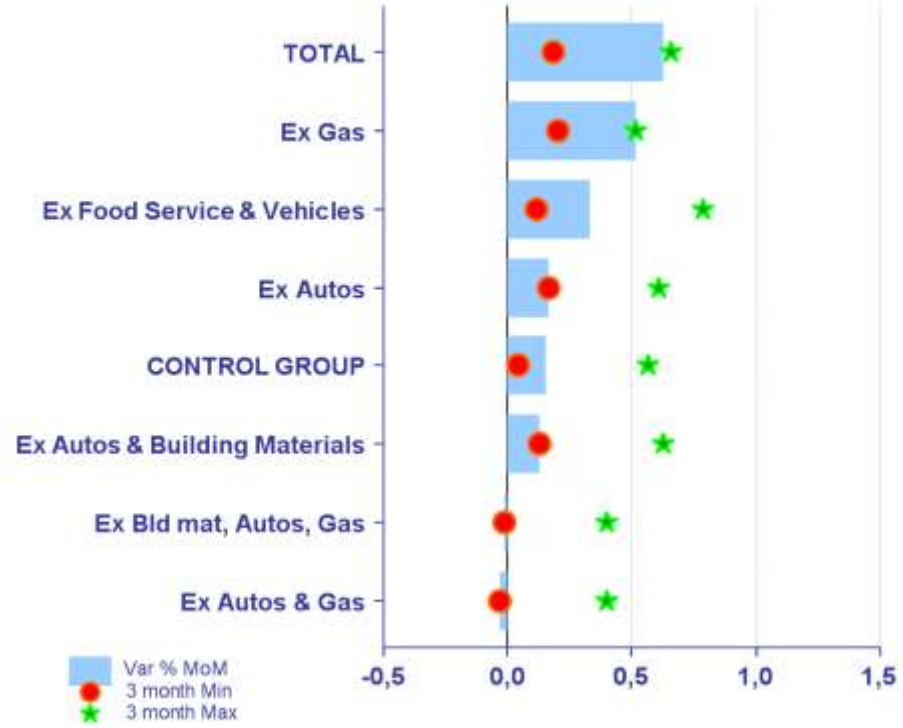
Trend survey



Retail sales' impulses and trend measures are positive in all the main aggregates. According to all surveys, trend growth rates are vigorous and over three percentage points.

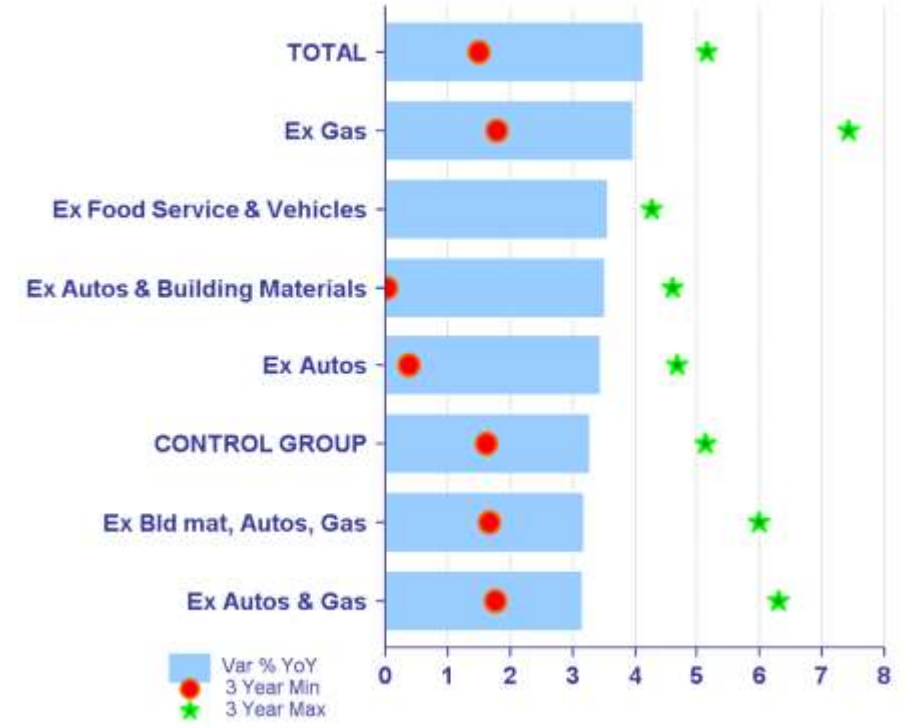
RETAIL SALES – MACROCLASSES

Monthly survey



RETAIL SALES – MACROCLASSES

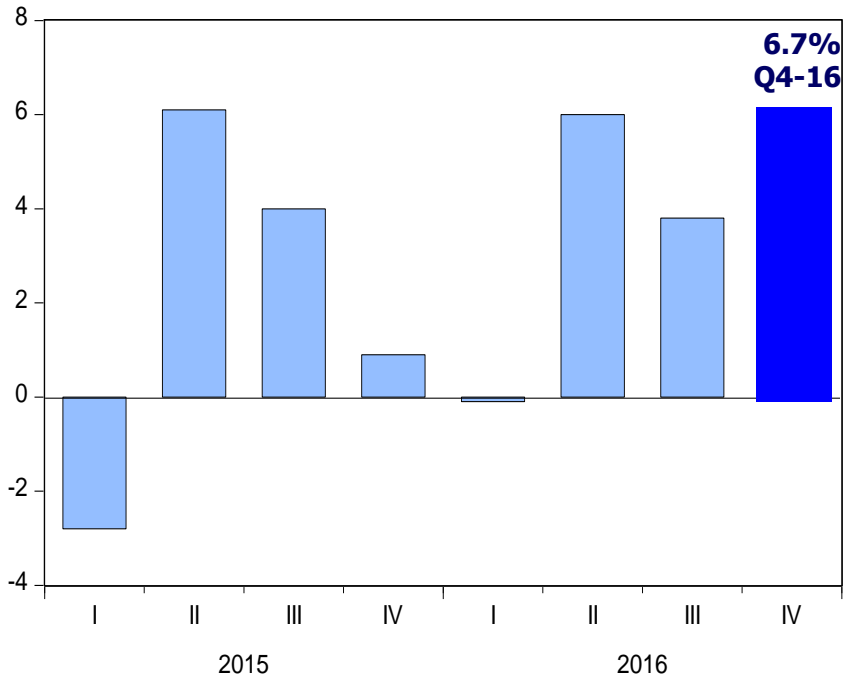
Trend survey



In terms of quarterly averages, retail sales' growth rate in the fourth quarter – recalculated including December data – is meaningfully above that of the previous period, leading us to expect a more ample contribution from private consumption to the fourth quarter growth and giving a good impulse to the new year.

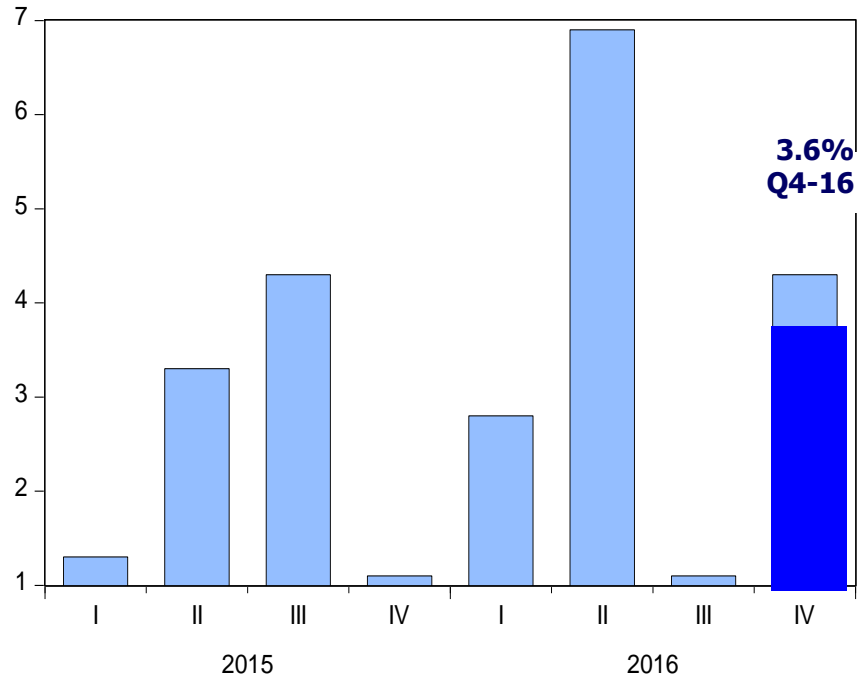
RETAIL SALES – TOTAL

Quarterly averages



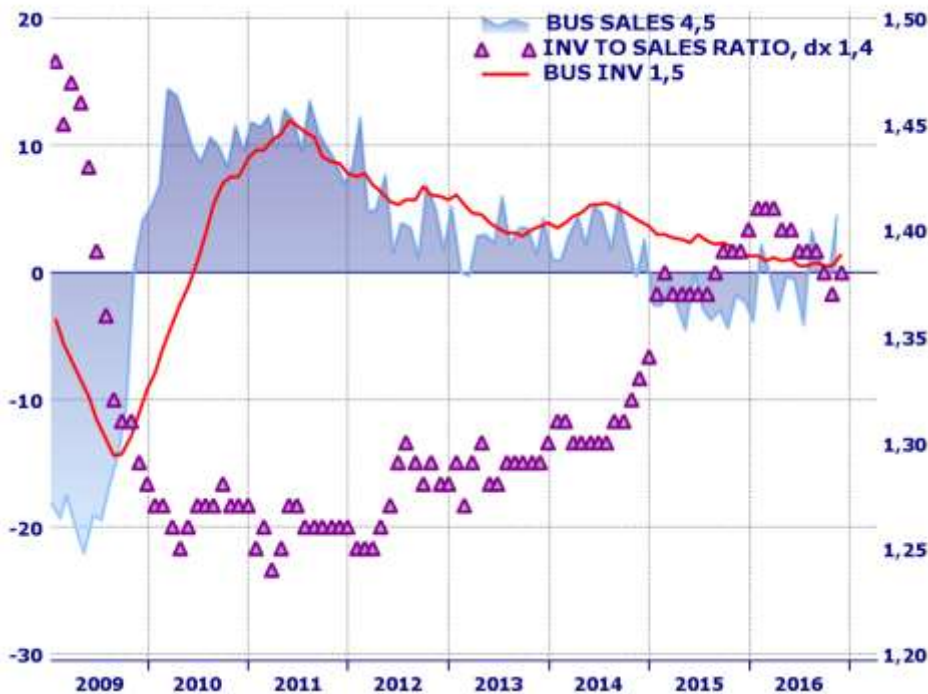
RETAIL SALES – CONTROL GROUP

Quarterly averages

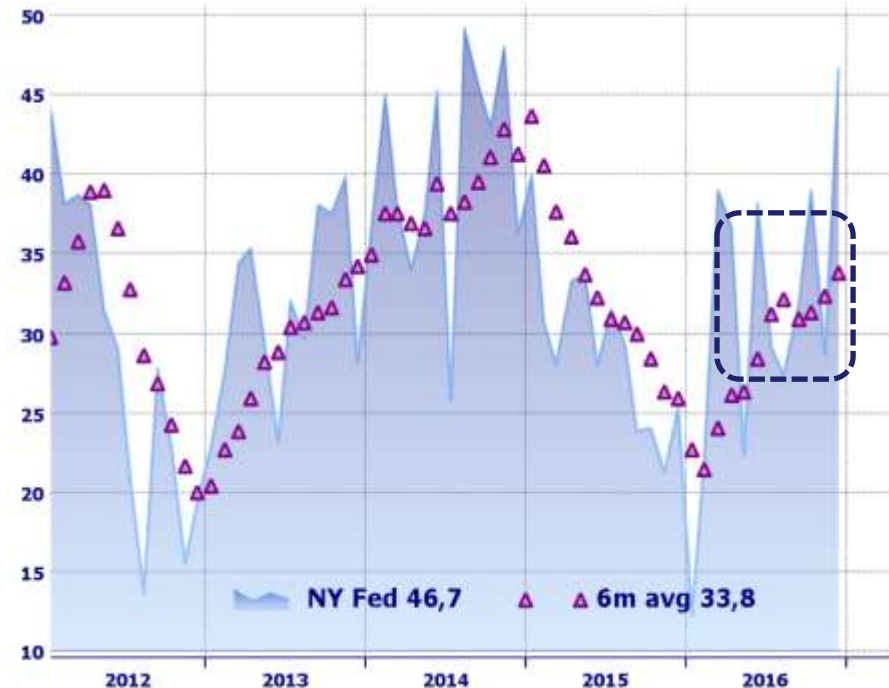


In the final part of 2016 according to the New York Fed, business sales significantly improved, pointing toward a decidedly better economic climate for the fourth quarter. The past two years' high has been reached. The inventories/sales ratio is finally decreasing significantly from its peak, indicating correct inventories levels and growth potential for industrial activity at the beginning of the new year. Business sales are the best since the end of 2014.

BUSINESSES' INVENTORIES AND SALES



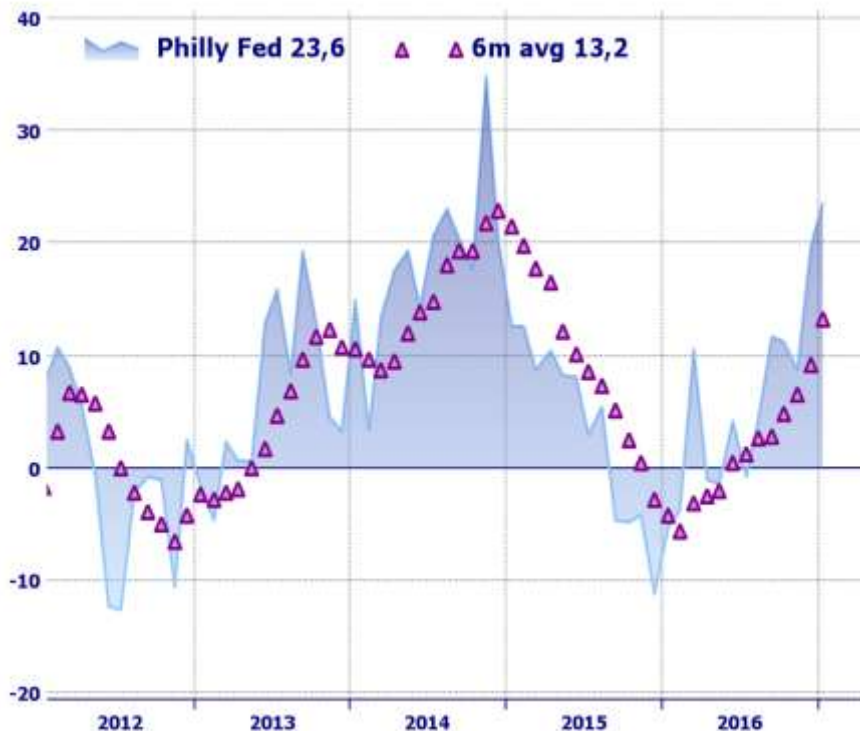
NY EMPIRE SURVEY: NEW ORDERS



BUSINESS CONFIDENCE

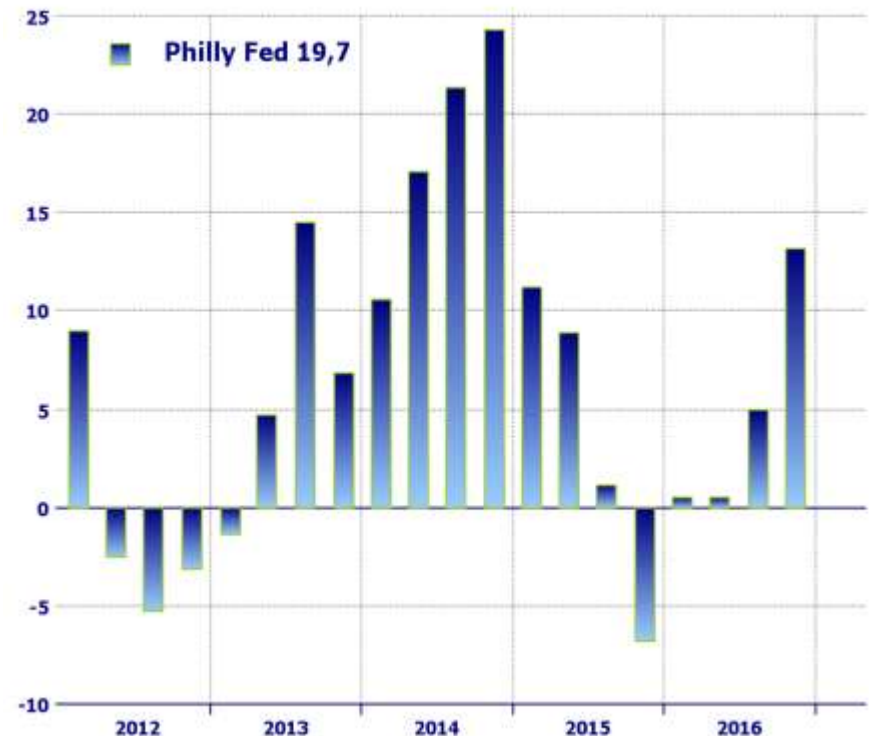
The Philadelphia Fed's index confirms a really visible improvement in industrial activity in 2016. The six-month average highlights the best conditions for the industrial compartment in the past year and a half.

PHILADELPHIA FED SURVEY



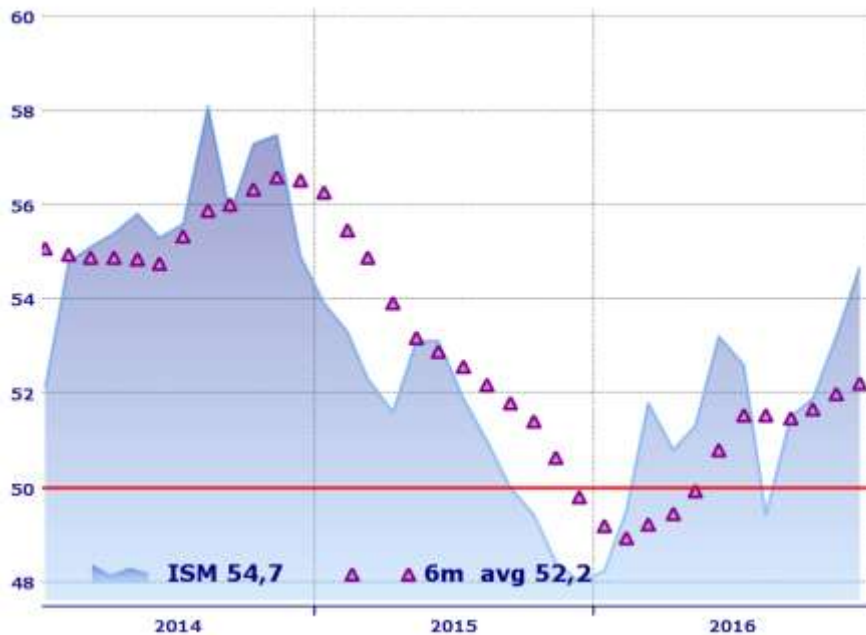
PHILADELPHIA FED SURVEY

Average quarterly values - Levels

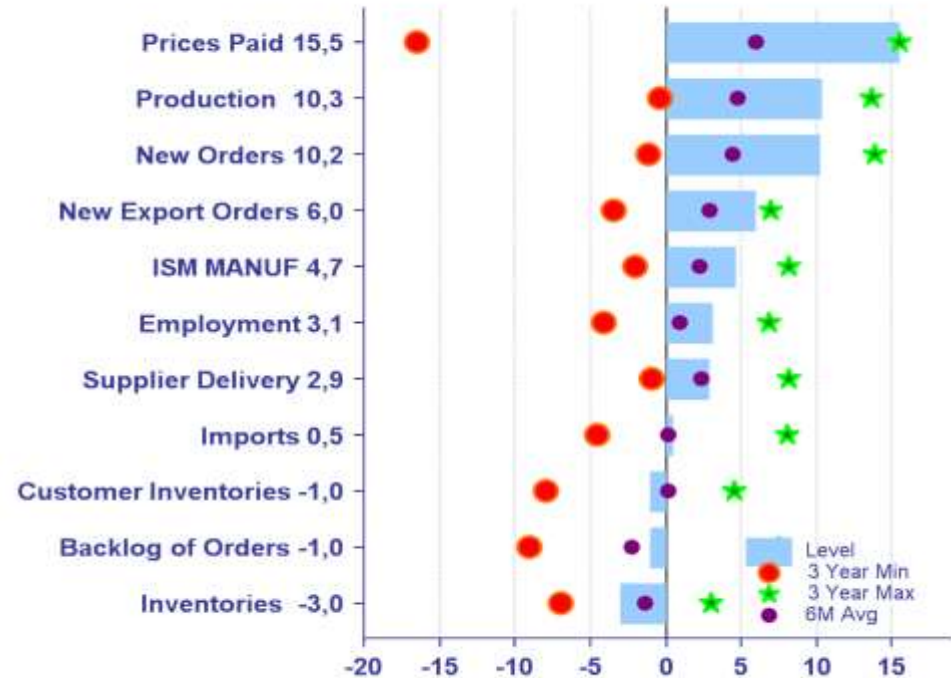


The ISM leading indicator of the manufacturing compartment grew by one and a half points, at 54.7 in December, highest level since the end of 2014

ISM MANUFACTURING

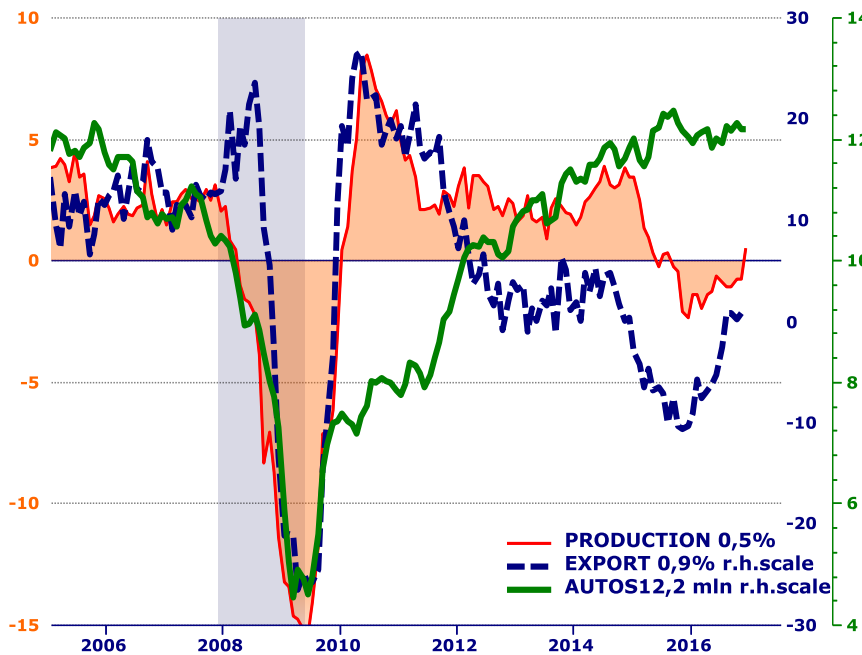


ISM MANUFACTURING – DETAIL

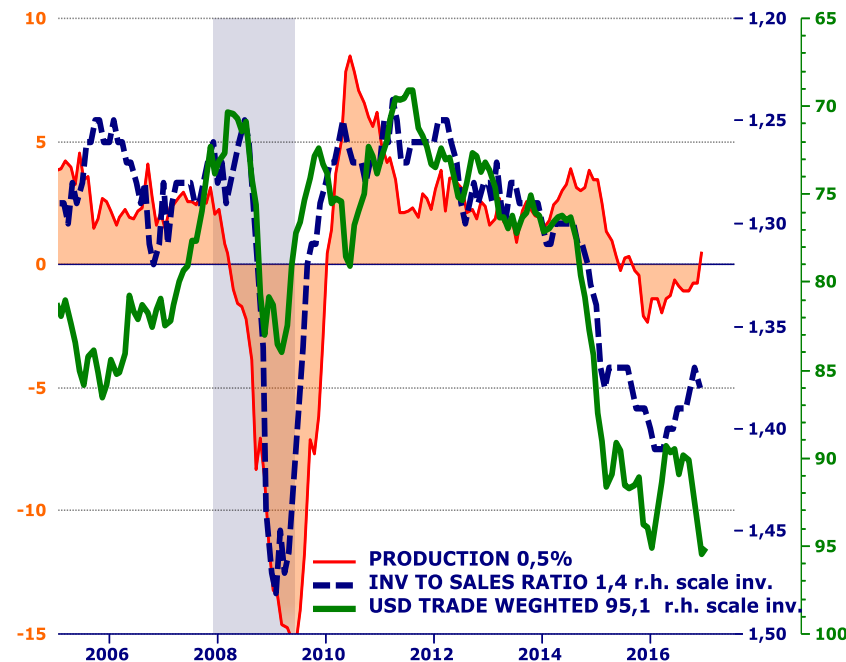


Recovery of foreign demand, high auto demand and more favourable inventories cycle: these factors will support the compartment in the future. The recent strengthening of the dollar, instead, counters these stimuli.

IND. ACTIVITY AND FOREIGN TRADE



IND. ACTIVITY AND EXCHANGE RATE



Industrial sector growth in 2017

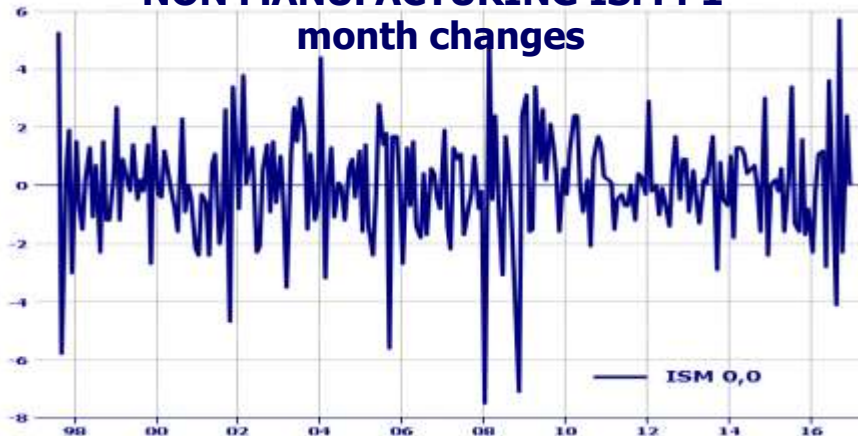
SERVICES CONFIDENCE

The non-Manufacturing ISM index – that covers services and building sectors – confirms strength signals and suggests a stable condition around the 2016 peaks.

NON MANUFACTURING ISM: levels



NON MANUFACTURING ISM : 1-month changes



NON MANUFACTURING ISM : DETAILS

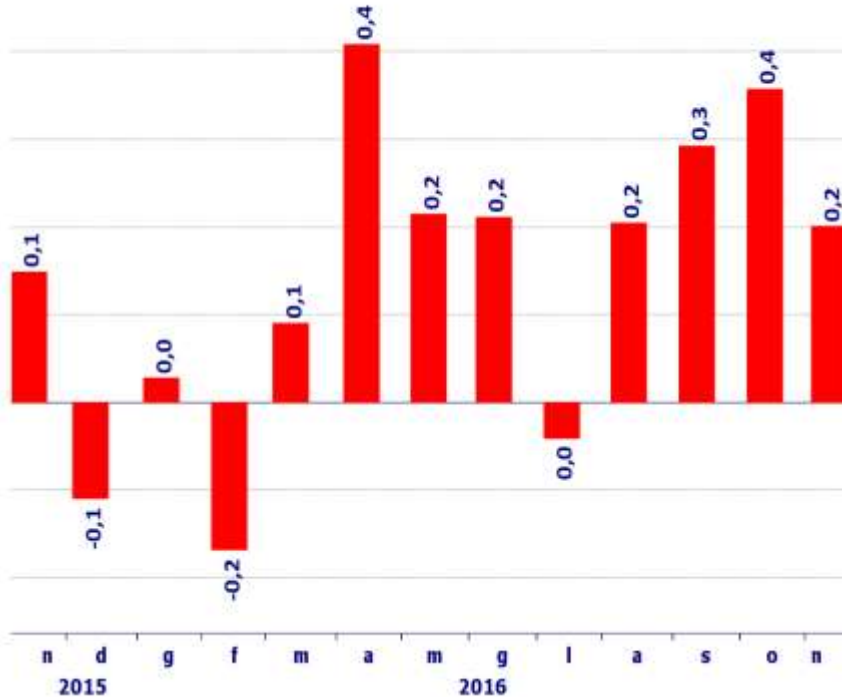


INFLATION

In November, inflation grew by 0.2% on a monthly basis, increasing for the fourth month in a row. The cumulated growth in the past three months is at 0.9%, highest rhythm since 2012. Price pressures are increasing in the system

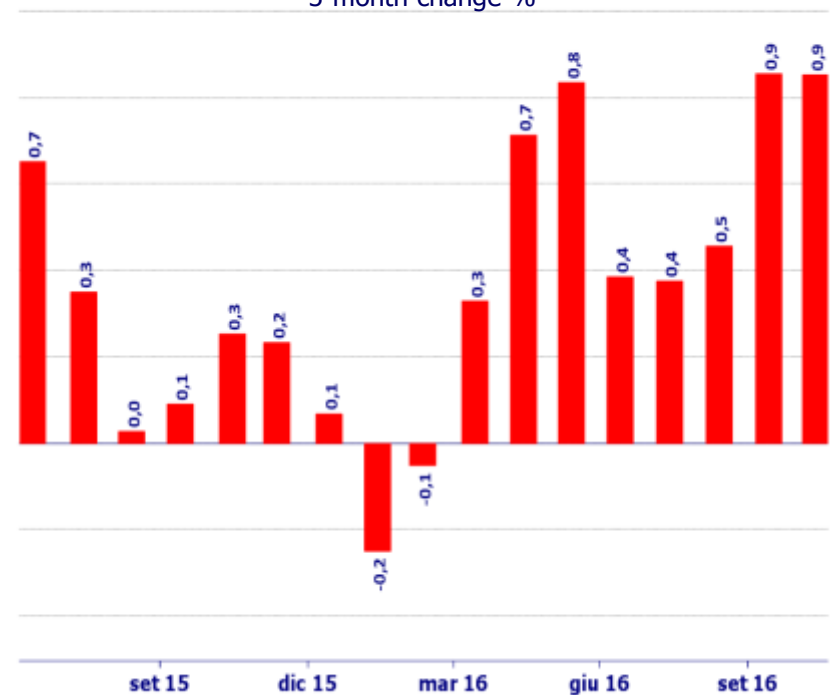
GENERAL INFLATION INDEX

Month/month % change



GENERAL INFLATION INDEX

3-month change %

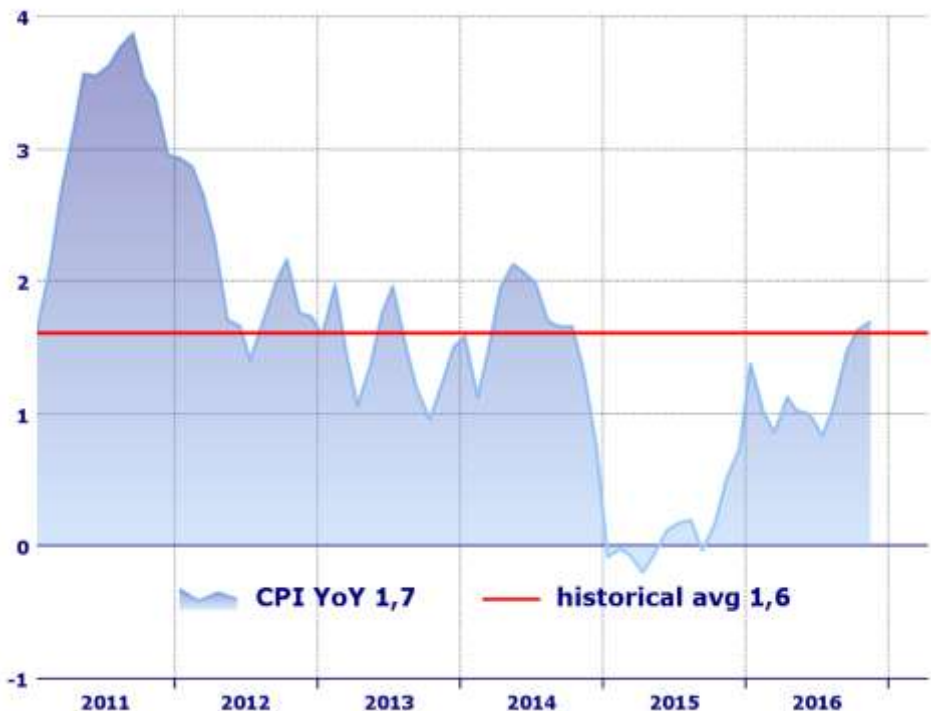


INFLATION

Stimulated by raw materials' prices increase and by the relatively high tone of the economy, we are witnessing a reflation process, that is gradually taking consumer prices to the central bank's target levels. On a yearly basis, the general inflation rate has accelerated in November at 1.7%, highest since November 2014, above the past five years' average. We forecast December's general index to be above 2%.

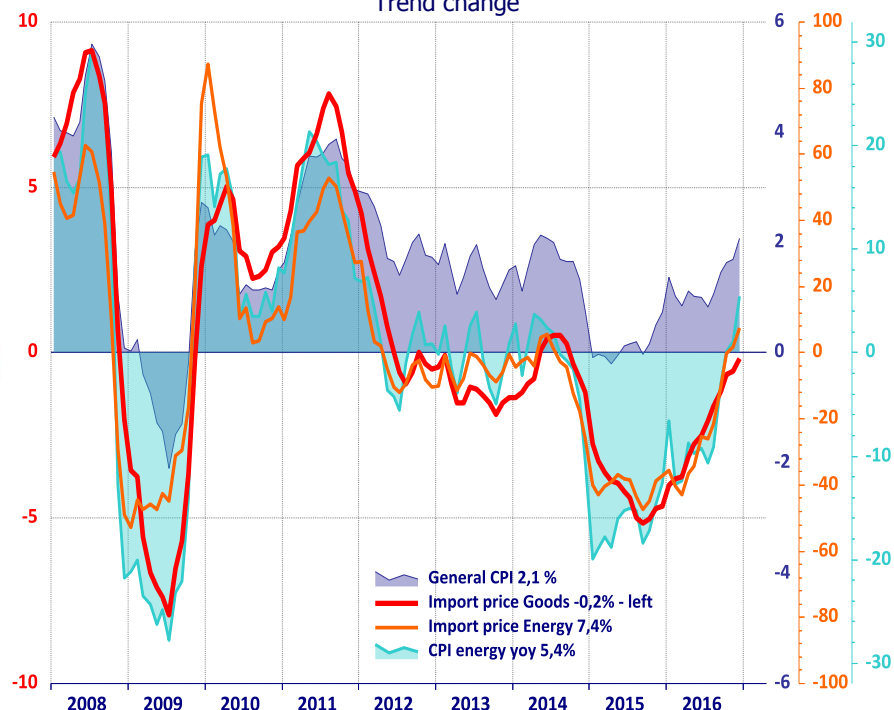
GENERAL INFLATION RATE

Trend change



INFLATION AND IMPORT PRICES

Trend change

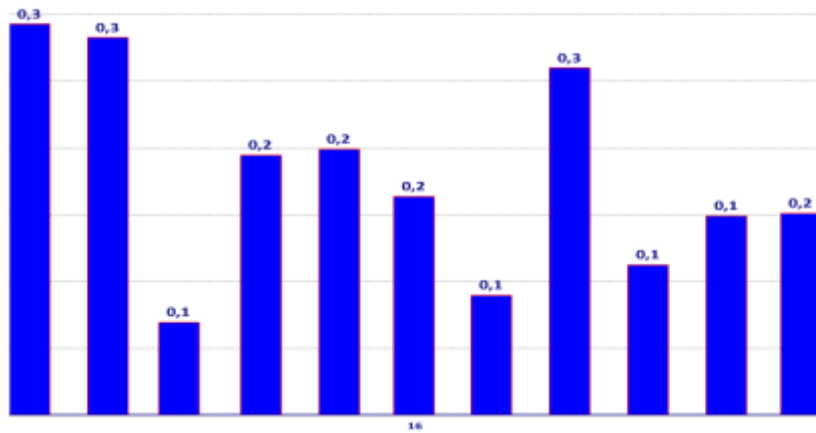


INFLATION

Core inflation is stable since the beginning of the year above 2%, although the current 2.1% value is at the lowest of 2016.

CORE INFLATION INDEX

change % month/month



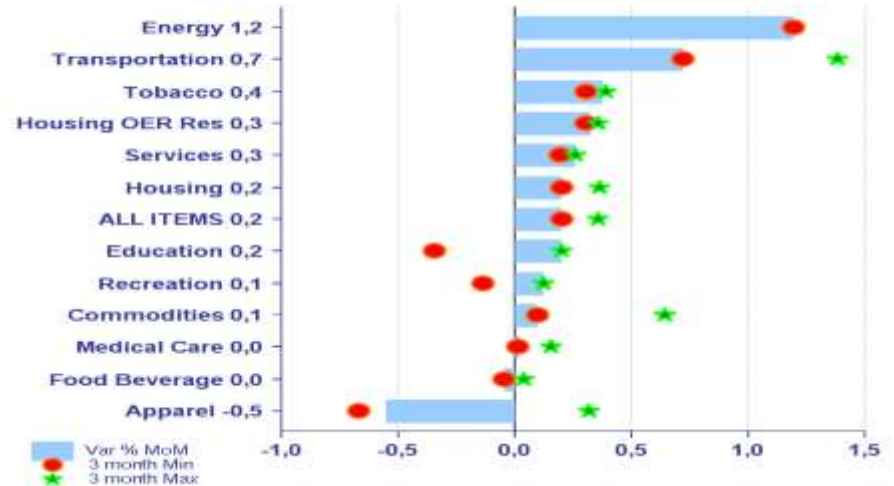
CORE INFLATION INDEX

Annualised quarterly change %



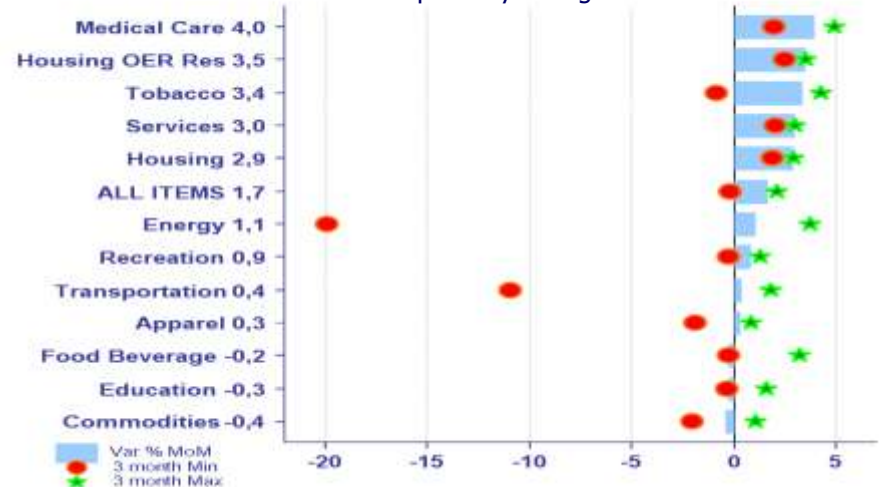
INFLATION BY SECTOR

change % month/month



INFLATION BY SECTOR

Annualised quarterly change %

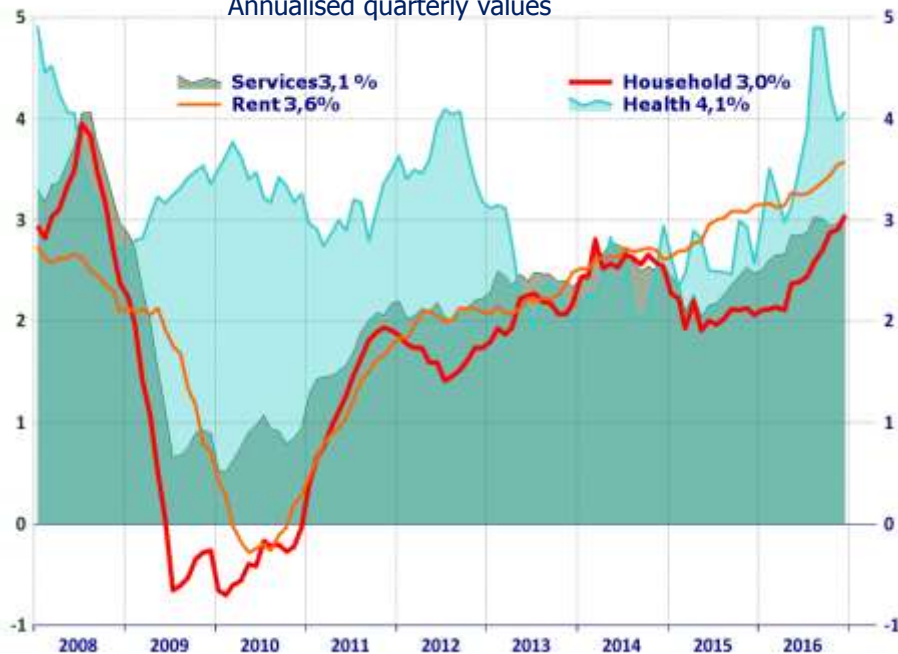


INFLATION

Also producer prices are significantly increasing. Upstream inflation at 1.7% is at highest level over the past two years...

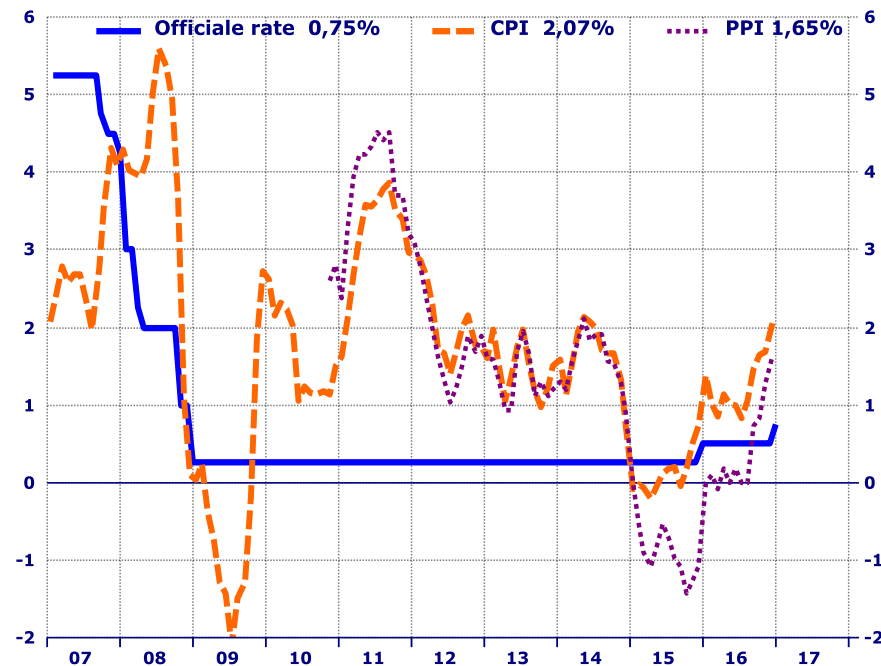
INFLATION: PRINCIPAL CORE INDEXES

Annualised quarterly values



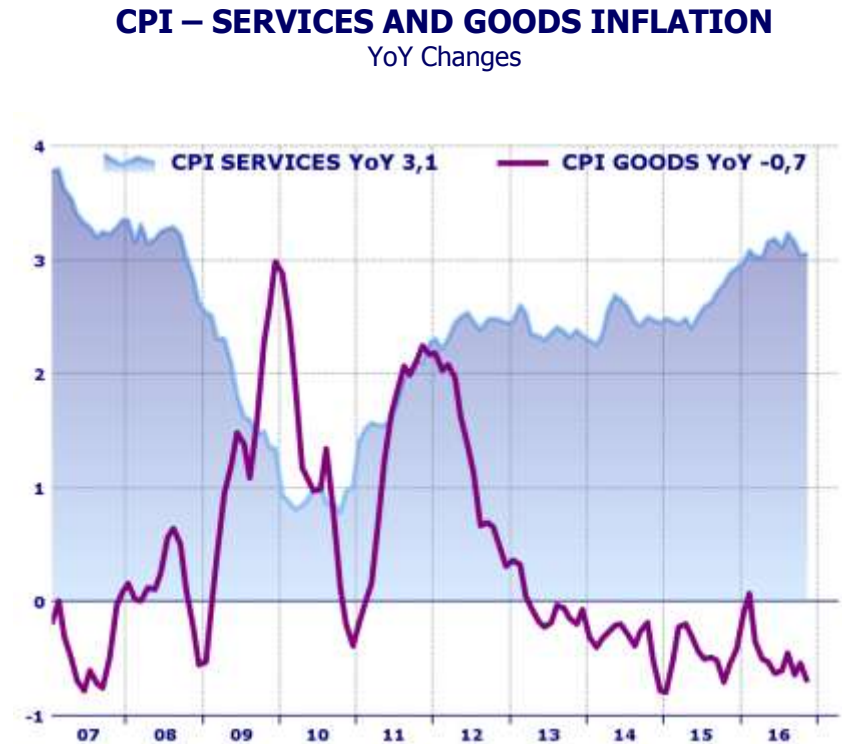
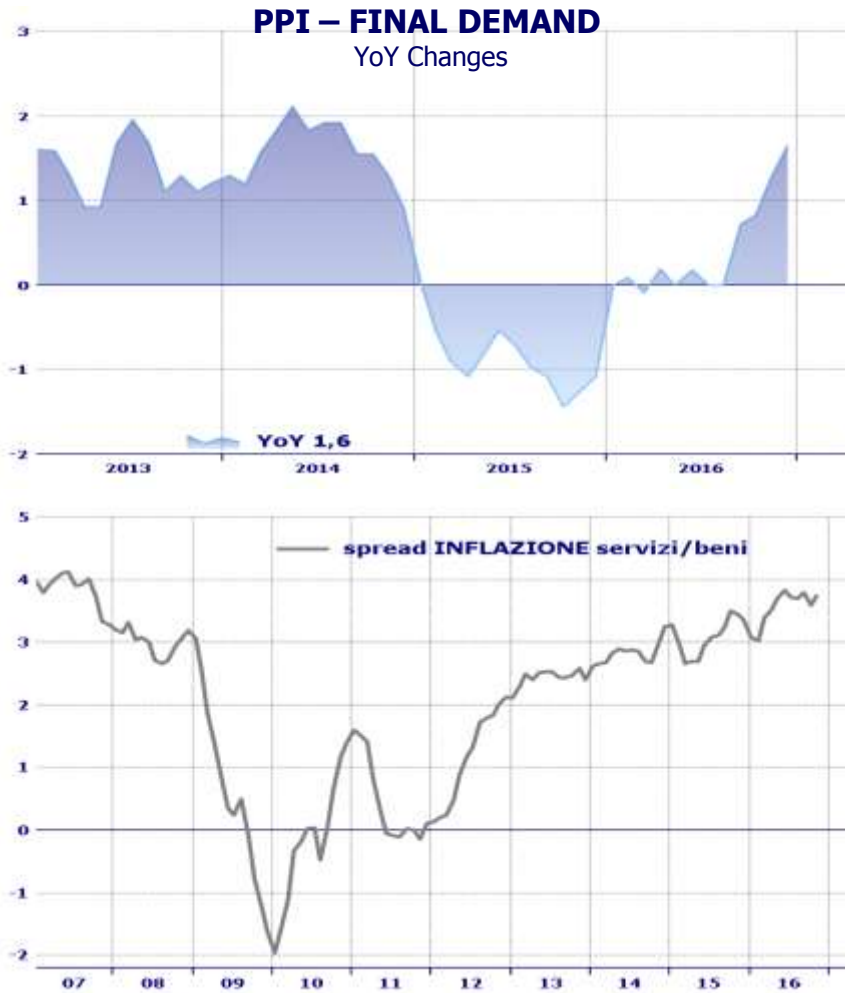
MONETARY POLICY AND INFLATION

Production and consumer prices - yearly changes



INFLATION

... and services' inflation is above 3%.



14 DICEMBER MEETING

In the December 14 meeting the Fed increased by one fourth of a point the cost of money, bringing it to the 0.50/0.75% range. This is the first restrictive measure since December 2015, the second increase in the past ten years.

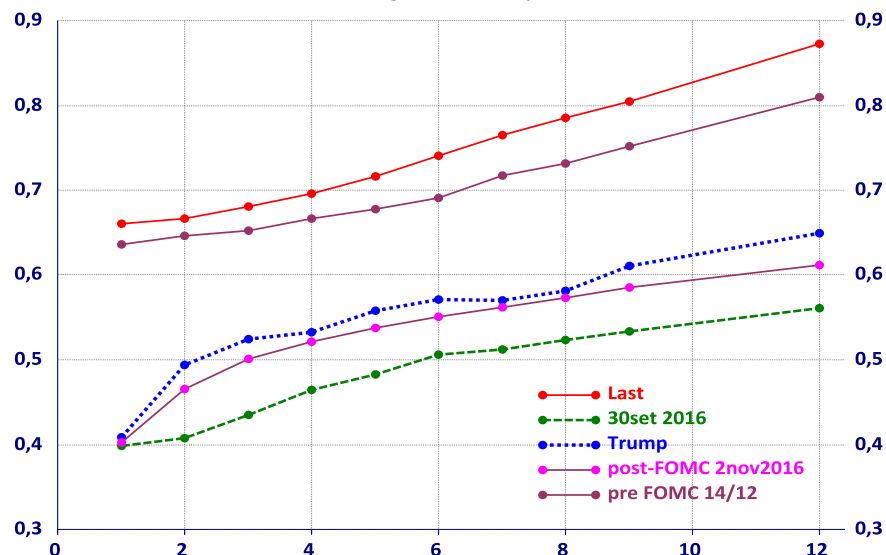
The Fed a) has described the past months' stronger macroeconomic conditions, with inflation and employment headed towards their long term targets. b) As a consequence, it will increase rates more aggressively in 2017, with three instead of two increases. Furthermore, it will c) pay attention to the new President's economic policy; from this point of view, markets' reaction (rates' and the dollar's exchange rate increase) is in and of itself a restriction on financial conditions.

The market had already fully incorporated the policy change, but the Fed's more restrictive than expected rhetoric was a surprise. The answer has been a strong increase in rates' expectations..

rate

MONETARY POLICY AND MARKETS' EXPECTATIONS

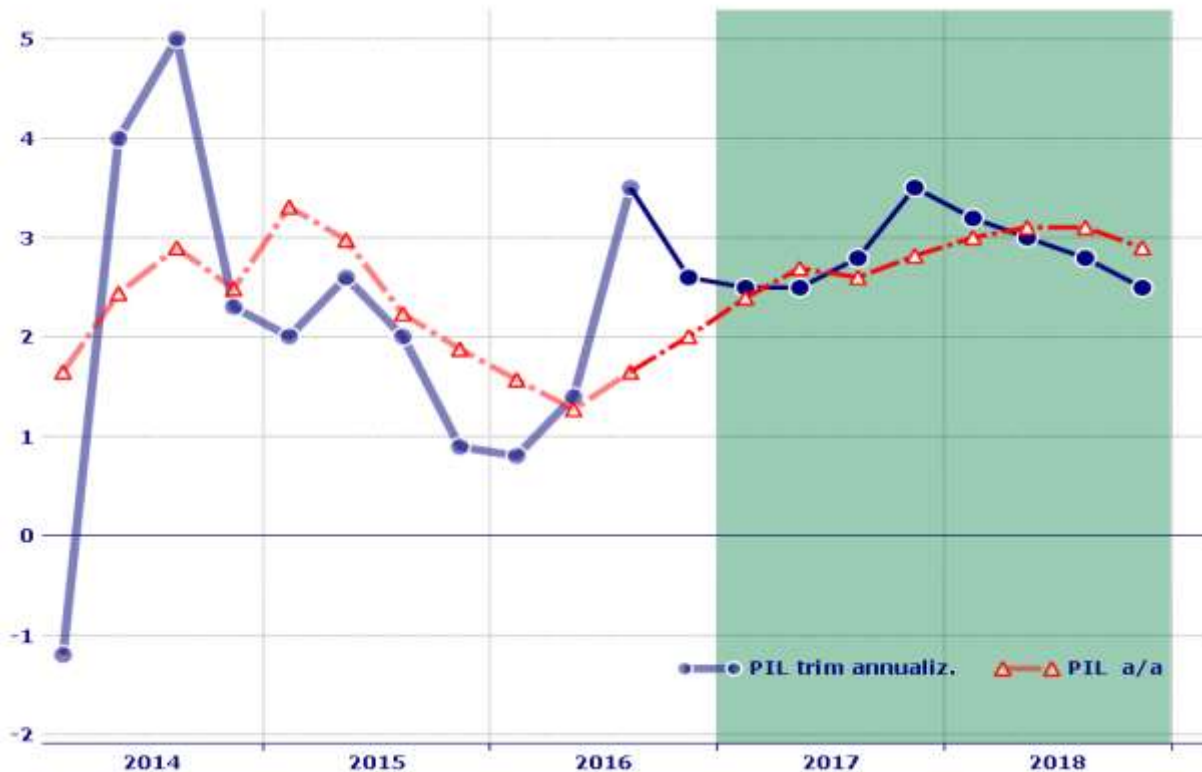
Curve OIS – Overnight Index Swap – values %



mesi

GROWTH FORECASTS

The current forecast for the last quarter of the year is at 2.6-2.8%, which incorporates an upward revision by half a tenth of a point. This estimate is higher than market consensus. We assume the full effect of Trump's stimulus from the second half of 2017, with congiunturali impulses over 3% between the end of 2017 and the beginning of 2018, when the cycle will reach its maturity. In 2018, the average growth will be 3%.



	GDP	diff. Cons.
2015	2.6	
2016	1.6	=
2017	2.7	+0.4
2018	3.0	+0.3

INFLATION FORECASTS

Trump's economic policy inversion implies higher inflation.

GENERAL INFLATION: peaks at above 3% at the beginning of 2018.

CORE INFLATION: expected cyclical high in 2017.

INFLATION: UPDATED FORECASTS



	CPI HEADLINE	CPI CORE
2015	0.1	1.8
2016	1.3	2.2
2017	2.6	2.3
2018	2.8	2.1

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