Le prospettive dell'economia mondiale ed europea

Emilio Rossi
Senior Advisor
erossi@oxfordeconomics.com
Main developments affecting Italian economy

- Global activity strengthening
- Recovery in the US, Eurozone improving - risk of deflation?
- Japan – is “Abenomics” working?
- China – will there be a crisis?
- Could the ‘troubled bunch’ Emerging Markets derail recovery?
AE improving, EM slowing but still faster growth

Source: Oxford Economics
Major risks dissipating, average risks increasing

Regions: OE risk index
100=highest risk - 2014/2018 average

- Americas
- Europe
- Asia
- Africa & ME

Source: Oxford Economics
AE - Recent trends make us more optimistic

Manufacturing Production

Index: 2007Q1 = 100

- Japan
- UK
- Eurozone
- US

Developed economies: Manufacturing output

% year

Source: Oxford Economics/Haver Analytics
US & JP - Aggressive monetary policy

Central Bank Total Assets
% of 2008 GDP

Source: IMF, World Economic Outlook, April 2014
US faster deleveraging helped consumption

Household Debt-to-Income Ratio

Source: IMF, World Economic Outlook, April 2014
US manufacturing now very competitive
US – 3% growth from 2015
Abenomics boosting inflation

Japan: Consumer price inflation

Source: Ministry of Internal Affairs and Communications / Haver Analytics

Oxford Economics
Japan - Consumption tax lifted GDP in Q1...

Japan: Quarterly GDP contributions

% quarterly contribution

- Private consumption
- Fixed investment
- Net exports
- Government consumption
- Stockbuilding
- GDP

Source: Cabinet Office of Japan / Haver Analytics
...but domestic demand needs more support...

Japan: Earnings

% year

Total earnings
Base earnings

Source: Ministry of Health, Labour and Welfare / Haver Analytics
...GDP growth will struggle to stay above 1%
We expect QE to be extended into 2015

Japan and US: QE policies compared
Central bank assets. % of GDP

Source: Oxford Economics
China - Forecast is for smooth rebalancing…

China: Expenditure structure of GDP

- **Investment**
- **Consumption**

Source: Oxford Economics
Non-financial corporate debt worrying

Outstanding Loans and Bonds of Non-Financial Corporations

2013, % GDP

- China
- Korea
- Japan
- Euro Zone
- UK
- US
- India
- Thailand
- Indonesia
- South Africa
- Brazil

Source: Oxford Economics\Haver Analytics\BIS
How deleverage and reduce shadow banking...
…without killing off investment?
EMs affected by weak China and US tapering
...as well as by commodity prices
Underlying vulnerabilities still exist...

Current account balance in 2005 and 2013

% of GDP

- Korea
- Malaysia
- Philippines
- China
- Russia
- Thailand
- Poland
- Mexico
- India
- Indonesia
- Brazil
- S Africa
- Turkey

Source: Oxford Economics/Haver Analytics
...and need to reform is essential for many EMs...

Ease of Doing Business Survey: Selected economies

- South Africa: 41
- Poland: 45
- Hungary: 54
- Czech Republic: 75
- Russia: 92
- China: 96
- Brazil: 116
- India: 134

Global Ranking
… but widespread crisis unlikely
Eurozone recovery is gradually strengthening.
Orders and capacity suggest turning point...

Eurozone: Manufacturing new orders

- % year 3mma
- Capital goods
- Total

Source: Haver Analytics

Europe: Capacity utilisation

- Germany
- France
- Italy
- UK

Source: Haver Analytics
...but unemployment a Eurozone issue (ex-GY)

Source: Oxford Economics
EZ - Access to credit still decreasing

Nonfinancial Firm and Household Credit Growth
Annual % change

Source: IMF, World Economic Outlook, April 2014
EZ – competitiveness hindered by ULC

Eurozone: Unit labour costs

Index, 2005=100

- Eurozone
- Germany
- France
- Italy
- Spain

Source: Haver Analytics

OXFORD ECONOMICS
Low inflation nearing deflation risk

Eurozone: Inflation

Source: Oxford Economics
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2.8</td>
<td>1.9</td>
<td>2.4</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Canada</td>
<td>1.7</td>
<td>2.0</td>
<td>2.2</td>
<td>2.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Japan</td>
<td>1.4</td>
<td>1.6</td>
<td>1.1</td>
<td>1.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-0.6</td>
<td>-0.4</td>
<td>1.1</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>0.9</td>
<td>0.5</td>
<td>2.0</td>
<td>1.8</td>
<td>1.5</td>
</tr>
<tr>
<td>France</td>
<td>0.0</td>
<td>0.3</td>
<td>0.7</td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Italy</td>
<td>-2.4</td>
<td>-1.8</td>
<td>0.3</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Spain</td>
<td>-1.6</td>
<td>-1.2</td>
<td>1.1</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>UK</td>
<td>0.3</td>
<td>1.7</td>
<td>3.0</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Russia</td>
<td>3.4</td>
<td>1.4</td>
<td>0.3</td>
<td>1.4</td>
<td>3.1</td>
</tr>
<tr>
<td>China</td>
<td>7.7</td>
<td>7.7</td>
<td>7.1</td>
<td>6.9</td>
<td>7.1</td>
</tr>
<tr>
<td>India</td>
<td>4.8</td>
<td>4.6</td>
<td>4.7</td>
<td>4.9</td>
<td>6.1</td>
</tr>
<tr>
<td>Other Asia</td>
<td>2.7</td>
<td>3.6</td>
<td>4.4</td>
<td>5.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.7</td>
<td>1.3</td>
<td>3.4</td>
<td>3.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.0</td>
<td>2.3</td>
<td>1.4</td>
<td>1.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>3.7</td>
<td>3.2</td>
<td>2.6</td>
<td>3.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>2.1</td>
<td>1.6</td>
<td>1.9</td>
<td>2.1</td>
<td>3.3</td>
</tr>
<tr>
<td>MENA</td>
<td>4.2</td>
<td>3.7</td>
<td>4.2</td>
<td>4.6</td>
<td>4.8</td>
</tr>
<tr>
<td>World</td>
<td>2.4</td>
<td>2.2</td>
<td>2.7</td>
<td>3.1</td>
<td>3.2</td>
</tr>
<tr>
<td>World (PPP)</td>
<td>3.1</td>
<td>3.0</td>
<td>3.3</td>
<td>3.7</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
Conclusions

• Global activity strengthening
  → advanced economies improving
  → EMs disappointing amid capital outflows
  → Euro break-up and fiscal cliff out of the agenda, but risks still twisted on the downside

• Recovery in the US, Eurozone improving - but risk of deflation

• Japan - “Abenomics” making progress, third arrow missing

• China – GDP growth slowing, proposed reforms may avert a severe crisis but risk of plummeting investment and banking crisis