

GLOBAL ECONOMIC OUTLOOK

May 2013



Growth is expected to improve in the U.S. and the U.K., while disappointing in Europe.

UNITED STATES

A strengthening of private sector demand is predicted to more than offset fiscal restraint from sequestration in 2013. Inflation and inflation expectations are within range of the Fed's 2% target and are stable. The Fed is willing to pare back or expand asset purchases from the current pace of \$85 billion per month as the outlook of the labor market or inflation changes. The probability of a tapering of asset purchase is more likely by early 2014, if labor market data maintain the tone of the April employment report. The U.S. dollar's fortunes are mixed in the near term; a small appreciation vis-à-vis the euro, yen, sterling and Chinese yuan by the end of the year should not be surprising. The fragile economic and financial situation of the eurozone is the single largest risk to the U.S. economy in the months ahead.

EUROZONE

Eurozone real GDP is forecast to contract 0.6% in 2013 with subdued growth of 0.6% in 2014. France will likely perform worse than anticipated while Spain and Italy continue to struggle mightily. Inflation is expected to be restrained, with the ECB cutting the refi rate once more then holding steady at 0.50%. Unemployment is seen climbing to 12.6% in 2013 with only minimal improvement in 2014. A weaker euro at the end of 2013 is expected. Peripheral debt sustainability, weaker-than-forecast growth, a Merkel election defeat and an escalation of public opposition to "austerity economics" would all threaten eurozone growth prospects.

UNITED KINGDOM

With the worst of the crisis behind it, forecasts have the United Kingdom reaching GDP growth of 0.8% in 2013 and 1.4% in 2014. The BOE will likely keep interest rates at 0.50% while inflation is expected to decline to 2.0% in 2014. A renewed round of quantitative easing later this year is certainly possible. No major changes in the labor market are foreseen; unemployment should hold steady in 2013 and fall ever so slightly in 2014. The pound is seen weakening slightly, ending 2013 at US\$1.47/£. Turmoil in eurozone markets and a weaker-than-forecast eurozone economy are risks to the U.K. financial sector and fiscal deficit target.

JAPAN

As the economy recovers from the 2H2012 slowdown, real GDP growth is predicted to come in at 1.3%, rising slightly higher in 2014. The BOJ is committed to aggressive monetary easing and will very likely maintain the current 0.05% target policy rate. The yen is expected to continue weakening moderately to 105¥/US\$ by the end of 2013. The BOJ is likely to miss its 2% inflation goal in both 2013 and 2014, with forecast price level increases at 0.3% and 1.5%, respectively. Benign unemployment is expected to hover at 4.2%. Risks to Japan include global economic deterioration and a failure to implement fiscal and structural measures to complement monetary policy.



CHINA

China's growth prospects for 2013-14 are barely meeting expectations right now and the country looks to only eke out expansion of 8.0% over the forecast period. Inflation remains tame, with below-pace growth not creating price pressures despite low interest rates. Monetary policy is not expected to ease, as the People's Bank of China will offer financial stimulus through adjusting reserve ratios rather than lowering interest rates directly. There is talk that the yuan will be allowed to move in a broader trading band, but after an initial strengthening, the yuan will be allowed to soften in order to keep exports competitive and maintain what growth the economy is able to muster. These forecasts are vulnerable to how the government addresses overpriced real estate assets and the related lending supporting this expansion – a bursting of this bubble could send shock waves through all of Asia.

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Global Economic Forecast

Percent change from previous period

	2011	2012	2013F	2014F
United States				
Real GDP	1.8	2.2	1.9	2.7
Inflation	3.1	2.1	2.0	1.8
Unemployment Rate (%)	8.9	8.1	7.5	7.0
Policy Rate (%)	0.25	0.25	0.25	0.25
Eurozone				
Real GDP	1.5	-0.5	-0.6	0.6
Inflation	2.7	2.5	1.4	1.7
Unemployment Rate (%)	10.2	11.4	12.6	12.5
Policy Rate (%)	1.00	0.75	0.50	0.50
United Kingdom				
Real GDP	1.0	0.3	0.8	1.4
Inflation	4.5	2.8	2.7	2.0
Unemployment Rate (%)	8.1	7.9	7.9	7.8
Policy Rate (%)	0.50	0.50	0.50	0.50
Japan				
Real GDP	-0.5	2.0	1.3	1.5
Inflation	-0.3	0.0	0.3	1.5
Unemployment Rate (%)	4.6	4.4	4.2	4.2
Policy Rate (%)	0.05	0.05	0.05	0.05
China				
Real GDP	9.3	7.8	8.0	8.1
Inflation	5.5	2.6	2.7	2.5
Unemployment Rate (%)	4.1	4.1	4.1	4.0
Policy Rate (%)	4.00	3.50	3.25	3.25
Exchange rates (EOP)				
	Mar-2013	Jun-2013	Sep-2013	Dec-2013
\$/€	1.28	1.33	1.28	1.26
\$/£	1.52	1.52	1.48	1.47
Yen/\$	94.2	100.0	103.0	105.0
CNY/\$	6.21	6.25	6.30	6.30

F: Forecast

