

GLOBAL ECONOMIC OUTLOOK

July 2013



Growth is expected to improve in the United States and the United Kingdom while disappointing in Europe.

UNITED STATES

Economic fundamentals of the U.S. economy are solid. The housing and labor markets, along with the auto sector, have improved over the past year and are poised to continue improving. Fiscal restraint is slowing after being a drag on growth for the past year. Income and wealth creation are supportive of consumer spending. Inflation and inflation expectations remain subdued and will remain low for the next year. If optimistic growth projections for the second half of the year are accurate, the Federal Reserve will take appropriate steps by year-end to scale back its asset purchases. The U.S. dollar has gained ground, and a further appreciation is expected in the near term vis-à-vis major currencies. Persistent stress in the eurozone and the possibility of a hard landing in China are risks that weigh on the outlook for growth in the United States.

EUROZONE

Eurozone real gross domestic product (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. Growth will remain severely constrained as long as bank lending is subdued and national governments focus on fiscal reforms. Inflation is expected to remain very subdued, with the European Central Bank keeping the refi rate at the record low of 0.5% through the end of 2014. High and rising rates of unemployment will continue to be a challenge, particularly in peripheral countries, with the rate for the eurozone as a whole peaking at around 13% in the fourth quarter of 2013 and improving only slightly in 2014. Unexpected political turmoil in Italy or Spain, or an inconclusive general election result in Germany, could trigger renewed market stress in the coming months.

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. Inflation is finally easing and could come down to 2.0% by the second quarter of 2014. The unemployment rate appears to have peaked and should slowly improve going forward. The Bank of England will likely keep interest rates at 0.5% through 2014. The central bank is moving toward more forward guidance on monetary policy in the hope of providing additional support.

JAPAN

The economy continues to surprise on the upside as exports gradually pick up, corporate profits rise, public investment increases and consumer sentiment shows signs of improvement. Real GDP growth is forecast at 1.6% this year, rising slightly in 2014 to 1.7%. The Bank of Japan (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 0.2% and 1.5%, respectively. Benign unemployment is expected to hover at 4.1%. Risks to Japan include global economic deterioration and failure to maintain the initial



momentum generated by “Abenomics,” by slowing or abandoning implementation of fiscal and structural measures to complement monetary policy.

CHINA

Prospects for 2013 have diminished considerably, with growth expectations now down to around 7.0% for this year and next versus considerations of up to 8.0% growth just three months ago. Inflation is not problematic, a revealing sign of the lack of price pressures within the economy due to demand not placing much pressure on supplies. The People's Bank of China (PBoC) is implementing a blend of policy adjustments to smooth the expected correction in lending trends without aggravating the current asset bubble. The markets expect the PBoC to relax the current trading band on the yuan, which could offer a little economic relief by stimulating exports. But none of the moves being implemented or proposed would secure a soft landing for the slowing economy. Downside risks to China's outlook are significant and widespread; the main concern is the impact of the slowing economy on lending portfolios and the stability of the financial sector around year-end.

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Global Economic Forecast

Percent change from previous period

	2011	2012	2013F	2014F
United States				
Real GDP (%)	1.8	2.2	1.7	2.7
Unemployment Rate (%)	8.9	8.1	7.5	7.0
Inflation (%)	3.1	2.1	1.6	1.9
Policy Rate (%)	0.25	0.25	0.25	0.25
Eurozone				
Real GDP (%)	1.5	-0.5	-0.6	0.5
Unemployment Rate (%)	10.2	11.4	12.6	12.5
Inflation (%)	2.7	2.5	1.4	1.7
Policy Rate (%)	1.00	0.75	0.50	0.50
United Kingdom				
Real GDP (%)	1.0	0.3	0.8	1.4
Unemployment Rate (%)	8.1	7.9	7.9	7.8
Inflation (%)	4.5	2.8	2.7	2.0
Policy Rate (%)	0.50	0.50	0.50	0.50
Japan				
Real GDP (%)	-0.5	2.0	1.6	1.7
Unemployment Rate (%)	4.6	4.4	4.1	4.1
Inflation (%)	-0.3	0.0	0.2	1.5
Policy Rate (%)	0.05	0.05	0.05	0.05
China				
Real GDP (%)	9.3	7.8	7.2	7.0
Unemployment Rate (%)	4.1	4.1	4.2	4.3
Inflation (%)	5.5	2.6	2.5	2.0
Policy Rate (%)	4.00	3.50	3.50	3.00
Exchange rates (EOP)				
	Jun-2013	Sep-2013	Dec-2013	Mar-2014
\$/€	1.30	1.29	1.27	1.25
\$/£	1.52	1.53	1.51	1.49
Yen/\$	99.15	103.0	105.0	107.0
CNY/\$	6.19	6.14	6.13	6.12

F: Forecast

