# GLOBAL ECONOMIC OUTLOOK

*April 2015*

Washington, D.C., is beautiful in the springtime. The cherry blossoms are out, and the humidity has yet to set in. The air is filled with promise.

Unfortunately, the atmosphere within the recently concluded meetings of the International Monetary Fund (IMF) and the World Bank was heavy with concern. Poor first-quarter results from China and the United States, the crisis in Greece and struggles in some key emerging markets garnered the lion's share of attention. In light of these factors, the IMF issued a cautious outlook for the rest of 2015.

While we are certainly aware of the risks in the current environment, we are somewhat more sanguine about the quarters ahead. Some transitory factors affected first-quarter global growth, and policymakers across the globe are acting aggressively to stimulate activity. There are green shoots visible in the eurozone, and financial markets reflect a sunny disposition.

**The year's slow start is largely due to transitory factors.**

Following is a summary of our group discussions of major world markets and how they are likely to perform during the balance of the year. See this narrative's conclusion for numeric forecasts of key variables.

## UNITED STATES

The winter setback in economic activity should subside, and a pickup in economic growth is most likely for the rest of the year. The official unemployment rate is on track to reach the Federal Reserve's full-employment range by the end of the year. Overall inflation is predicted to approach the Fed's 2.0% target, as oil prices have stabilized and core inflation shows signs of firming.

Consumers are expected to spend more of their savings from lower oil prices, while housing fundamentals suggest moderate growth. The drag from equipment spending related to the oil-and-gas industry should stabilize, and government spending is predicted to make a positive contribution.

The Fed is on track to raise the policy rate in 2015, assuming that performance follows the expectations described above. Headwinds from a strong dollar, the ramifications of sluggish growth in China, a failure of the eurozone to maintain economic momentum and geopolitical factors related to oil lead the list of risk factors to monitor.

## EUROZONE

The outlook for the eurozone has improved somewhat in recent months, as record-low interest rates and very weak inflation have boosted household spending power and investor sentiment. The lack of reform in the second- and third-largest economies (France and Italy) will likely restrain overall eurozone growth somewhat. But Germany's export machine and improving sentiment in general should ensure real gross domestic product (GDP) growth of around 1.5% this year, edging up to 1.9% in 2016.

Unemployment rates are coming down more rapidly in some countries than in others, with still-high rates proving stubborn in the likes of France and Italy. Still, the average rate should ease to perhaps 10.6% in 2016 from around 11.0% this year.

Inflation will remain subdued across much of the eurozone this year, with the annual rate averaging perhaps 0.1% for the year as a whole. (The influence of falling energy prices is the dominant driver of this result.) Inflation will start to pick up toward the end of this year and more rapidly in 2016 as global oil prices see some recovery and the European Central Bank's quantitative easing program reflates the economy.

The crisis surrounding Greece remains a significant source of uncertainty. Our outlook assumes that whatever the resolution of that situation, the eurozone economy will be able to move on productively.

**The drama in Greece and upcoming U.K. elections are immediate concerns.**

## UNITED KINGDOM

The U.K. economy is expected to continue performing strongly this year. The low oil price and continued declines in the unemployment rate should help boost overall consumer spending by around 3%, offsetting expected lower investment growth to keep overall expansion at 2.8% for the year. Early signs are promising, with consumer confidence at a high not seen since 2002.

Inflation could turn negative once energy price cuts filter into the data. But toward the later months of the year, the combination of moderating oil prices and lower base effects should see inflation rising again and the annual average come in at around 0.3%. Unemployment in the three months ended in February fell to 5.6% from 5.7%. Given that job vacancies continue to increase, we expect the jobless rate to fall throughout 2015, averaging 5.5%.

We have pushed back the timing of the Bank of England's first rate hike to first quarter 2016, given that the vote to leave rates unchanged is once again unanimous. Next month's election could have a significant influence on economic policy and performance. We'll have coverage of the prospects and the results in our weekly economic commentary.

## JAPAN

The Japanese growth story is settling into a repetitive tone: the economy remains sluggish as the effects of the April 2014 tax increase have lingered longer than expected. Tankan survey results have softened as businesses become more pessimistic and industrial production remains volatile; in addition, private consumption is weak, and retail sales have fallen.

However, the export sector has been a bright spot. Exports are up 8.5% year-over-year, thanks in part to the weak yen improving price competitiveness. There are also promising signs that companies will finally deliver noteworthy wage hikes this year. Barring an extreme shock, the economy should continue to stumble toward a full recovery and log GDP growth of 0.9% in 2015.

The inflation target is another matter. The Bank of Japan governor speaks of needing tremendous velocity to "escape from the deflationary equilibrium." However, it is difficult to see where Japan will find such velocity. With consumer sentiment sluggish and energy prices low, it is unlikely to recover momentum in the short term.

## CHINA

The stated growth target for 2015 is "approximately 7%," but we do not foresee the economy meeting the high end of the target. The economy is working to overcome a series of challenges, which include weaker manufacturing output, contracting exports and the correction in the real estate market.

**Chinese policy seeks short-term stimulus and long-term stability.**

Fiscal policy is expected to focus on infrastructure, affordable housing and support for small and medium enterprises. However, official attempts to rein in local government spending will also create a drag on GDP as local governments – which currently account for 85% of public spending – shelve large-scale projects.

The People's Bank of China (PBoC) is in full-blown easing mode as it attempts to counteract slower credit growth, capital outflows and the rising real effective exchange rate.  Already this year, the bank has lowered mortgage down payment requirements, cut the reserve requirement ratio and reduced two key interest rates. The prospects for further loosening are high, even as the PBoC grapples with mounting pressures within the banking system.

The yuan is expected to weaken by the end of the forecast period. However, the PBoC's push to have the currency included in the IMF's Special Drawings Rights basket of reserve currencies has raised expectations that the bank will keep the yuan stable this year instead of allowing weakening.


**Carl Tannenbaum**
Chief Economist
312-557-8820
ct92@ntrs.com

**Asha Bangalore**
Economist
312-444-4146
agb3@ntrs.com

**Victoria Marklew**
Country Risk Manager
312-444-4144
vem1@ntrs.com

**Brian Liebovich**
Chief Dealer, Foreign Exchange
312-630-8021
bfl2@ntrs.com

**James Pressler**
Senior Analyst
Country Risk
312-444-4109
jap10@ntrs.com

**Ben Trinder**
Analyst, Country Risk
Country Risk
44-20-7982-2517
bt424@ntrs.com

**Ieisha Montgomery**
Senior Analyst
Country Risk
312-630-6984
im18@ntrs.com

**Marshall Birkey**
Senior Analyst
Country Risk
312-630-6965
mb336@ntrs.com

**Northern Trust | 50 South La Salle Street | Chicago, Illinois 60603 | northerntrust.com**

## Global Economic Forecast – April 2015

| | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|
| **United States** | | | | |
| Real GDP (% change) | 2.2 | 2.4 | 2.6 | 2.8 |
| Unemployment Rate (%) | 7.4 | 6.2 | 5.4 | 5.3 |
| Inflation (%) | 1.5 | 1.6 | 0.1 | 2.1 |
| Policy Rate, EOP (%) | 0.15 | 0.15 | 0.50 | 2.50 |
| **Eurozone** | | | | |
| Real GDP (% change) | -0.4 | 0.9 | 1.5 | 1.9 |
| Unemployment Rate (%) | 12.0 | 11.6 | 11.0 | 10.5 |
| Inflation (%) | 1.4 | 0.5 | 0.1 | 1.3 |
| Policy Rate, EOP (%) | 0.25 | 0.05 | 0.05 | 0.05 |
| **United Kingdom** | | | | |
| Real GDP (% change) | 1.7 | 2.8 | 2.8 | 2.7 |
| Unemployment Rate (%) | 7.6 | 6.2 | 5.5 | 5.3 |
| Inflation (%) | 2.6 | 1.5 | 0.3 | 1.6 |
| Policy Rate, EOP (%) | 0.50 | 0.50 | 0.50 | 1.50 |
| **Japan** | | | | |
| Real GDP (% change) | 1.6 | -0.1 | 0.9 | 1.3 |
| Unemployment Rate (%) | 4.0 | 3.6 | 3.6 | 3.5 |
| Inflation (%) | 0.4 | 2.7 | 0.6 | 1.0 |
| Policy Rate, EOP (%) | 0.10 | 0.10 | 0.10 | 0.10 |
| **China** | | | | |
| Real GDP (% change) | 7.7 | 7.4 | 6.8 | 6.9 |
| Unemployment Rate (%) | 4.1 | 4.1 | 4.1 | 4.1 |
| Inflation (%) | 2.6 | 2.1 | 1.4 | 2.2 |
| Policy Rate, EOP (%) | 3.00 | 3.00 | 2.25 | 2.00 |

| Exchange rates (EOP) | Mar-2015 | Jun-2015F | Sep-2015F | Dec-2015F |
|---|---|---|---|---|
| EUR/USD | 1.07 | 1.04 | 1.03 | 1.01 |
| GBP/USD | 1.46 | 1.45 | 1.43 | 1.41 |
| USD/JPY | 120.1 | 121.0 | 122.0 | 123.0 |
| USD/CNY | 6.20 | 6.22 | 6.24 | 6.26 |

*F: Forecast*
*EOP: End of period*



Northern Trust