



GLOBAL RESEARCH & ANALYTICS



Volume 7 | March 2013

GLOBAL ECONOMY

# CRISIL Insights

The CRISIL Insights Global Economy series represents our outlook on the financial scenario across the world and provides a perspective into how it will shape up in the near future.

## Global growth uncertain as eurozone looks shaky

The global growth outlook remains uncertain despite most central banks adopting an easy monetary policy regime. Growth in the eurozone, which had somewhat stabilised in the past few months, seems to be impacted by the outcome of the recent elections in Italy. However, the transition in political leadership in China was smooth as expected. GDP growth in the US may slow down as a result of the recent spending cuts. Meanwhile, Japan is still struggling to revive its economy. Overall, some of these global developments can add a negative hue to an otherwise improving global economic environment.

The uncertainty in the eurozone increased again due to the election deadlock in Italy, where no party received a clear majority. The country's premier, Mario Monti, who has been undertaking some reformist measures, got a very low proportion of the total votes cast. This impacted Europe's financial markets with sovereign bond yields rising and share prices falling. Italy is the eurozone's third-biggest economy with public debt amounting to 130 per cent of GDP. Servicing this debt might be difficult without commensurate growth. Thus, any upside forecast to the eurozone's economic growth seems likely only if the political deadlock is resolved.

In the US, the sequester, which was avoided for a few months, has now come into force. This means that government spending across all departments will be uniformly curtailed to contain the budget deficit. Such a move will impact the overall economy, both in terms of job creation and growth. Unemployment in the US is already at a high of 7.9 per cent and is likely to rise further now. Accordingly, Standard & Poor's (S&P) has lowered its US growth forecast to 2.7 per cent for 2013.

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## US Economy

The US's trade deficit fell to \$38.5 billion in December 2012 from 48.6 billion in November 2012. Total exports, on a seasonally-adjusted basis, grew by 4.9 per cent, while total imports fell by 2.0 per cent.

## UK Economy

The US's GDP declined by 0.1 per cent (q-o-q annualised) during Q4 2012 after growing by 3.1 per cent in Q3 2012. This took the country's overall GDP growth for 2012 to 2.2 per cent as against 1.8 per cent in 2011.

US Economy

### US inflation remained stagnant in January 2013

Seasonally-adjusted consumer price index (CPI) inflation in the US remained unchanged m-o-m at 1.6 per cent in January 2013. The energy index declined by 1.0 per cent during the month. Gasoline, natural gas and fuel oil indices within the energy index fell, while the electricity index increased. Food inflation increased by 1.6 per cent, fuelled by an increase in prices of fruits and vegetables. Core inflation (non-food and non-energy index) increased by 1.9 per cent in January 2013.

### US trade deficit eases in December 2012

The US's trade deficit fell to \$38.5 billion in December 2012 from \$48.6 billion in November 2012. Total exports, on a seasonally-adjusted basis, grew by 4.9 per cent, while total imports fell by 2.0 per cent. Imports of goods and services also declined by 2.3 and 0.2 per cent, respectively.

### UK inflation remains stagnant for the fourth consecutive month

CPI inflation in the UK remained unchanged at 2.7 per cent in January 2013. The highest upward pressure to inflation came from alcoholic beverages and tobacco, whose prices recovered after Christmas sales. This contributed 0.1 percentage point to overall inflation. The major downward pressure came from miscellaneous goods and services. Fees for financial services and sales of personal care appliances and products also dragged down inflation.

### High oil imports keep overall import bill high in UK in December 2012

The UK's trade deficit narrowed to 3.2 billion pounds in December 2012, slightly lower than 3.6 billion pounds in the previous month on a seasonally-adjusted basis. While overall exports continued to shrink in December at 1.7 per cent, overall imports growth trend reversed and entered the positive territory after 5 months. Oil import growth shot up to 22.0 per cent in December 2012 from -6.0 per cent in the previous month.

UK Economy

### Gross Domestic Product (GDP) growth

GDP growth (q-o-q, %)

	2011	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12
United States <sup>#</sup>	1.7	3.0	2.0	1.3	3.1	-0.1
United Kingdom	0.8	-0.3	-0.1	-0.4	1.0	-0.3
Eurozone	1.5	-0.3	0.0	-0.2	-0.1	-0.6
Japan <sup>*</sup>	-0.5	-0.1	3.3	4.0	0.4	0.4
China <sup>*</sup>	9.2	8.9	8.1	7.6	7.4	7.9

Note: <sup>#</sup>Seasonally adjusted y-o-y %, <sup>\*</sup> y-o-y %

Source: Statistical Bureau, Respective Countries

### Eurozone GDP shrinks by 0.5 per cent in 2012

GDP growth fell by 0.5 per cent in the fourth quarter of 2012, taking the overall GDP growth for 2012 to -0.5 per cent. In addition to many other countries in the region, France also entered into a recession as its GDP declined by 0.3 per cent in the fourth quarter of 2012. The sharpest decline in growth again came from Greece, whose GDP contracted by 6.0 per cent in the same period. In 2013 too, the region is expected to be in a recession. Although the European Commission says that growth is bottoming out, the region will still be in recession clocking a -0.3 per cent growth in 2013. However, S&P pegs GDP growth in the eurozone at -0.1 per cent for 2013. The continued implementation of policy decisions at the national as well as EU level is a positive and this will help reduce uncertainty on growth and increase investor confidence.

### Eurozone inflation dips

Inflation in the eurozone fell to 2.0 per cent in January 2013, from 2.2 per cent in December 2012. While electricity, vegetables and tobacco contributed to the upward pressure on inflation, telecommunication, medical and paramedical services and garments exerted a downward pressure.

Euro zone Economy

## Eurozone Economy

Inflation in the eurozone continued to be at 2.2 per cent for the second consecutive month in December 2012.

## Asian Economy

China posted a lower trade deficit of \$29.1 billion in January 2013 as against \$31.6 billion in December 2012.

### Eurozone trade surplus shrunk in December 2012

The eurozone's trade surplus in goods declined to 11.7 billion euros in December 2012 from 13.0 billion euros in the previous month. While exports fell by 3.0 per cent, imports declined by 6.0 per cent in December 2012.

### Japan's GDP rose by 0.4 per cent in Q4 2012

Japan's GDP grew by 0.4 per cent on a seasonally-adjusted basis, similar to the last quarter. Private investment demand in residential property (up 5.8 per cent) and government consumption demand (up 3.0 per cent) were the main growth drivers. Exports continued to shrink. Japan continues to struggle to get out of a low growth and deflationary regime.

### Japan's inflation well below the Bank of Japan's target level

Japan continues to battle deflation. Inflation worsened to -0.3 per cent in January 2013 from -0.1 per cent in December 2012. Core inflation (excluding food and energy) also fell to at -0.7 per cent in January 2013 from -0.6 per cent in December 2012. Food inflation came in at -0.7 per cent in January from -0.3 per cent in the previous month. The Bank of Japan targets inflation to be at 2.0 per cent in 2013.

### Japan posted a positive export growth after 8 months

Japanese exports grew by 6.4 per cent in January 2013 after remaining negative for the previous seven months. Growth in imports also rose by 7.3 per cent in January 2013 as against a 1.9 per cent rise in the previous month. The trade deficit reached a record high of 1.6 billion yen.

### China sets 2013 inflation target at 3.5 per cent

CPI in China fell to 2.0 per cent in January 2013 from 2.5 per cent in December 2012. Food inflation declined to 2.9 per cent from 4.2 per cent in same period. Within food, inflation in vegetable prices fell most sharply to 2.6 per cent in January 2013 from 14.8 per cent a month ago. However, inflation in clothing increased to 2.5 per cent from 1.9 per cent. Chinese Premier Wen Jiabao set the inflation target at 3.5 per cent during 2013, lower than 4.0 per cent target set for 2012. Jiabao stated that the target takes into account some leeway for adjusting prices of energy and resources.

### China's exports grew by 25 per cent in January 2013

China posted a lower trade deficit of \$29.1 billion in January 2013 as against \$31.6 billion in December 2012. Both exports and imports grew y-o-y, by 25.0 per cent and 29 per cent, respectively in January 2013.

#### Consumer Price Inflation (CPI - y-o-y%)

	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
United States	1.7	2.0	2.2	1.8	1.7	1.6
United Kingdom	2.6	2.5	2.2	2.7	2.7	2.7
Euro Area	2.6	2.6	2.5	2.2	2.2	2.0
Japan	-0.5	-0.3	-0.4	-0.2	-0.1	-0.3
China	2.0	1.9	1.7	2.0	2.5	2.0

Source: Statistical Bureau, Respective Countries

#### Trends in inflation within the EU

High-inflation countries	CPI(%)	Low-inflation countries	CPI(%)
Romania	5.1	Romania	0.0
Estonia	3.7	Estonia	0.4
Netherlands	3.2	Netherlands	0.6
Austria	2.8	Austria	0.7
Slovenia	2.8	Slovenia	1.0

Flash estimates peg the inflation in February 2013 at an even lower rate of 1.8 per cent.

### International Trade

	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
United States	-42.7	-40.4	-42.2	-48.6	-38.5	NA
United Kingdom	-4.3	-2.6	-3.4	-3.6	-3.2	NA
Euro Area	5.2	9.5	9.3	13.7	11.7	NA
Japan	-763.8	-564.9	-554.6	-956.5	-643.3	-1,630.9
China (US\$ billion)	26.7	27.7	32.0	19.6	31.6	29.1

Source: Statistical Bureau, Respective Countries

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Last updated: March 7, 2013

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