



GLOBAL RESEARCH & ANALYTICS



April 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 outlook remains mixed

The global growth outlook remains mixed. While within the Eurozone, crisis situation continues to haunt one member after the other, the US shows signs of recovery, despite the recent spending cuts. In Japan, the central bank's bold monetary easing measures to get the economy out of the deflationary regime have increased the confidence in the economy.

Cyprus has emerged as the latest casualty in the Eurozone crisis in March 2013. Initially, the Cypriot parliament rejected the proposal on taxing bank deposits to generate revenues for the government to pay off its debt. However, later, it partially agreed to the proposal as a part of the 10 billion euro bailout package approved by the IMF. This package comes on the back of conditions that (i) the two largest banks will not put any additional burden on taxpayers and get the public debt at sustainable levels, (ii) fiscal consolidation measures for 2013-15 will be announced in the recent budget, and (iii) the government will implement significant reform in public wage indexation mechanism and take steps to improve the pension system's long-term viability. This, however, is yet to be passed by the Cypriot parliament.

The US economy has been showing signs of recovery. Recently, there has been an upturn in the jobs for construction and the retail sectors. This is an indication that consumer spending is on the rise. The housing sector has also started improving. Given these indications of recovery, S&P maintains its US GDP forecast at 2.7 per cent for 2013.

US Economy

The latest estimate puts the US GDP growth for Q4 2012 at 0.4 per cent, up from 0.1 per cent published earlier

UK Economy

The UK's trade deficit in goods and services was recorded at 2.4 billion pounds in January 2013 from 2.8 billion pounds in December 2012

US Economy

US GDP Growth for Q4 estimated at 0.4 per cent

The latest estimate puts the US GDP growth for Q4 2012 at 0.4 per cent, up from 0.1 per cent published earlier, on a seasonally adjusted basis. This takes the overall GDP growth of the US to 2.2 per cent in 2012.

High energy inflation pushed overall inflation in the US

Seasonally-adjusted consumer price index (CPI) inflation in the US grew to 2.0 per cent in February 2013. While food inflation remained almost unchanged at 1.6 per cent, energy inflation shot up to 2.3 per cent. All major categories under energy grew in February 2013. Core inflation (less food and energy) was at 2.0 per cent in February 2013, up from 1.9 per cent in the previous month.

US current account deficit decreased in Q4 2012

The current account deficit of the US decreased to \$110.4 billion in the fourth quarter of 2012 from \$112.4 billion in the third quarter. This was because of an increase in the surpluses on income and services. There was a negative impact of an increase in the deficit of goods and an increase in outflows of net unilateral current transfers.

UK GDP decreased by 0.3 per cent in Q4

The GDP of the UK, decreased by 0.3 per cent in Q4 2012, quarter on quarter (q-o-q), on a seasonally adjusted basis. This takes the overall GDP growth of the UK to 0.3 per cent in 2012.

UK inflation rises marginally in February

CPI inflation in the UK increased marginally to 2.8 per cent in February 2013 after having remained at 2.7 per cent since October 2012. While food inflation reduced to 3.7 per cent during the month from 4.2 per cent in January 2013, inflation in utilities, transport as well as recreation and culture kept the pressure on the overall CPI inflation that was high during the month.

UK's oil imports declined sharply m-o-m in January 2013

The UK's trade deficit in goods and services, on a seasonally-adjusted basis, was recorded at 2.4 billion pounds in January 2013 from 2.8 billion pounds in December 2012. While there was an 8.2 billion pounds deficit in goods, overall services balance was in surplus at 5.8 billion pounds. Net oil imports reduced to 434 billion pounds in January 2013, down from 1901 billion pounds in December 2012 due to a 23 per cent lowering of overall oil imports in January 2013 over the previous month.

UK Economy

GDP growth (q-o-q, %)

	2012	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12
United States [#]	2.2	4.1	2.0	1.3	3.1	0.4
United Kingdom*	0.3	-0.1	-0.1	-0.4	0.9	-0.3
Eurozone*	-0.6	-0.3	0.0	-0.2	-0.1	-0.6
Japan*	2.0	0.4	6.0	-0.9	-3.7	0.2
China*	7.8	8.9	8.1	7.6	7.4	7.9

Note: [#]Seasonally adjusted y-o-y %, * y-o-y %
Source: Statistical Bureau, Respective Countries

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

	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
United States	1.7	2.2	1.8	1.7	1.6	2.0
United Kingdom	2.2	2.7	2.7	2.7	2.7	2.8
Euro area	2.5	2.2	2.2	2.2	2.0	1.8
Japan	-0.3	-0.4	-0.2	-0.1	-0.3	-0.6
China	1.9	1.7	2.0	2.5	2.0	3.2

Source: Statistical Bureau, Respective Countries

Euro zone Economy

Eurozone inflation reduces due to low food inflation

The Euro area inflation declined to 1.8 per cent in February 2013 from 2.0 per cent in the previous month. The largest upward pressure came from electricity, fruit and tobacco, while the largest downward pressure came from telecommunications, medical and paramedical services and garments.

Eurozone enters trade deficit in January 2013

The Eurozone recorded a trade deficit in goods to the tune of 3.9 billion euros in January 2013, down from a surplus of 10.8 billion euros in December 2012 primarily due to a sharper growth in imports on a m-o-m basis than exports. Growth in imports as well as exports in January 2013 stood at 5.0 and 1.0 per cent, respectively, from a decline of 3.0 and 5.0 per cent in December 2012.

Eurozone Economy

The Eurozone recorded a trade deficit in goods to the tune of 3.9 billion euros in January 2013, down from a surplus of 10.8 billion euros in December 2012

Asian Economy

The BoJ has announced that it will purchase government bonds worth 50 trillion yen annually to increase the money supply in the economy

Chinese inflation at a 10-month high

The CPI in China reached 3.2 per cent in February 2013, highest since April 2012 due to high food inflation. Food inflation in the country reached 6.0 per cent during February 2013. This was primarily due to the rising demand of food during the Chinese Spring Festival. The Chinese central bank raised its concerns about the uncertainty in the inflation outlook for 2013 and the bottoming out of growth in China. It is also concerned that the domestic consumption-led growth, which the country is aiming for, may create further inflationary pressures in the economy. The OECD has increased the CPI inflationary expectations for China to 2.7 and 2.9 per cent for 2013 and 2014, respectively, from 1.5 and 1.4 per cent forecasted earlier.

Bank of Japan announces bold monetary easing measures to boost inflation

Deflation in Japan has been getting more pronounced due to declining food inflation. While overall CPI inflation was down to 0.6 per cent in February 2013, food inflation was down to 1.9 per cent. Core inflation (non-food and non-energy) continued to dip further and reached 0.9 per cent, indicating no demand-side pressures. Inflation in culture and recreation dipped sharply to -2.8 per cent during the month. The Bank of Japan (BoJ) recently announced that it will purchase government bonds worth 50 trillion yen annually to increase the money supply in the economy and meet the inflation target of 2.0 per cent. Such monetary easing measures announced by the BoJ appear to be positively impacting the sentiments in the economy.

China's imports growth declined by 14.9 per cent in February 2013

Chinese exports continued to post a high growth of 21.7 per cent y-o-y in February 2013 as against a 14.9 per cent decline in import growth. This took the overall trade balance to \$15.2 billion.

Japanese export growth decline again in February 2013

Japanese merchandise exports declined again in February 2013 by 2.9 per cent from a one-off growth of 6.3 per cent in the previous month. Merchandise imports growth was even stronger in February at 11.9 per cent from a 7.1 per cent growth in January 2013. This took the overall trade deficit to 779 billion yens in February 2013 from 1.6 trillion yens in January 2013.

Crude oil prices came down from \$116.0 per barrel in February 2013 to \$108.7 per barrel in March 2013, a 6.3 per cent decline. Speculative demand for oil, which is majorly responsible for influencing its price, was impacted by the heightened global uncertainty due to the Cyprus crisis and the bailout package during March 2013.

Prices of most commodities fell during the month. Prices of aluminium and steel fell on both y-o-y and m-o-m basis in March 2013. On the other hand, the prices of wheat fell on a m-o-m basis, although they increased sharply, y-o-y.

International Trade

Merchandise Trade Balance (Billion, National Currency)

	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
United States*	-40.3	-42.0	-48.2	-38.1	-44.4	NA
United Kingdom*	-2.4	-3.3	-3.1	-2.8	-2.4	NA
Euro Area	8.4	9.1	12.9	10.8	-2.4	NA
Japan	-568.2	-556.2	-957.0	-645.7	-1,633.5	-779.5
China (US\$ billion)	27.7	32.0	19.6	31.6	29.1	15.2

Note: * Goods and services

Source: Statistical Bureau, Respective Countries

Trends in inflation within the EU

High-inflation countries	CPI(%)	Low-inflation countries	CPI(%)
Austria	2.6	Belgium	1.3
Estonia	4.0	Ireland	1.2
Netherlands	3.2	France	1.2
Spain	2.9	Portugal	0.2
Slovenia	2.9	Greece	0.1

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