



January 2014

**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.

## Divergent growth trends seen

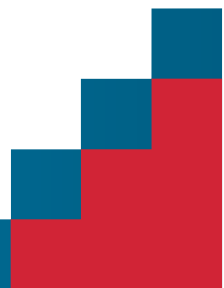
Though the global economy seems to be slowly recovering, such a recovery remains uneven and fragile, with advanced and emerging economies witnessing divergent growth trends. While signs of a recovery in developed economies are stronger, emerging economies are struggling with slower growth and restrictive financial conditions. The International Monetary Fund (IMF), in its World Economic Outlook (October 2013), forecasted the global economy to grow by 2.9 per cent in 2013, and 3.6 per cent in 2014.

**Gross Domestic Product (GDP) Heat Map**  
GDP growth (Q-o-Q %)

	2012	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13
United States#	2.8	2.8	0.4	1.1	2.5	4.1
United Kingdom#	0.3	0.7	-0.2	0.3	0.6	0.8
Euro area#	-0.7	-0.1	-0.5	-0.2	0.3	0.1
Japan#^	2.0	-3.5	1.1	4.1	3.8	1.0
China*	7.8	7.4	7.9	7.7	7.5	7.8

Note: \*Seasonally adjusted, \* y-o-y%, ^annualised  
Source: Statistical Bureau, Respective Countries

Improvement Decline



## US Economy

GDP growth for the third quarter of 2013 was revised upwards to 4.1 per cent, driven by both private consumption and investments

## UK Economy

The second estimate of third-quarter GDP confirmed that the UK economy grew at 0.8 per cent q-o-q, the strongest since spring of 2010

US Economy

### Unemployment falls to record low, GDP revised upwards

The US seems to have finally managed to hit a growth patch. While third-quarter GDP grew at the fastest pace in almost two years, exports grew by the most since mid-2012, while unemployment levels fell to a record low post-crisis. GDP growth for the third quarter of 2013 was revised upwards to 4.1 per cent, driven by both private consumption and investments. The upward revision in GDP was on account of:

- Personal consumption expenditure grew at 2.0 per cent (q-o-q) in the third quarter of 2013 as compared to 1.4 per cent estimated earlier and a 1.8 per cent growth in the second quarter of 2013.
- Growth in gross private domestic investments was revised up to 17.2 per cent for the third quarter of 2013 from 16.7 per cent estimated earlier. In the second quarter of 2013, private domestic investment growth registered at 9.2 per cent.
- A 0.4 per cent growth in government spending in the third quarter of 2013 as compared to -0.4 per cent in the second quarter of 2013 also contributed to higher GDP.

Apart from GDP growth, other economic indicators also bode well for recovery in the US. Inflation in the US accelerated to 1.2 per cent in November after slowing to a four year low in October. On the trade front, in October 2013, exports grew at the fastest pace since June 2012 at 5.5 per cent, while imports rose by 3.6 per cent, indicating demand may be picking up. The unemployment rate in the US came down to 7 per cent in November, which was the lowest since December 2008. Expecting that economic activity is expanding at a moderate pace, the US Federal Reserve on December 18 decided to reduce the monthly asset purchase programme by \$10 billion to \$75 billion. The committee also decided to keep interest rates close to zero until the unemployment rate goes below 6.5 per cent.

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

	Jun-13	July-13	Aug-13	Sept-13	Oct-13	Nov-13
United States	1.8	2.0	1.5	1.2	1.0	1.2
UK	2.9	2.8	2.7	2.7	2.2	2.1
Eurozone	1.6	1.6	1.3	1.1	0.7	0.8
Japan	0.2	0.7	0.9	1.1	1.1	1.6
China	2.7	2.7	2.6	3.1	3.2	3.0

Source: Statistical Bureau, Respective Countries

### Policy Interest Rate (End of Month %)

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
United States	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25
UK	0.5	0.5	0.5	0.5	0.5	0.5
Eurozone	0.50	0.50	0.50	0.50	0.25	0.25
Japan	0.0	0.0	0.0	0.0	0.0	0.0
China	6.0	6.0	6.0	6.0	6.0	6.0

Source: Central Banks, Respective Countries

UK Economy

### UK economy grows at fastest rate since spring of 2010

The second estimate of third-quarter GDP confirmed that the UK's economy grew at 0.8 per cent q-o-q, the strongest since spring of 2010, following a 0.7 per cent expansion in the second quarter. Household spending rose to 0.8 per cent q-o-q in the third quarter even as disposable income increased more slowly (0.4 per cent in the third quarter q-o-q).

Consumption is expected to remain strong even in the fourth quarter, as signalled by retail sales data that rose 0.3 per cent m-o-m in November. Inflation moderated to 2.1 per cent versus 2.2 per cent in October, coming closer to the Bank of England's target of 2 per cent. The unemployment rate also eased to 7.4 per cent in during August - October 2013 from 7.8 per cent during May-July 2013.

On the policy front, the Bank of England maintained its benchmark interest rate at 0.5 per cent in December amid signs that the country's recovery was gaining speed and inflation was slowing. The government unveiled its infrastructure spending plan for the next 20 years for long-term sustainable growth.

### Risk of deflation posed by lowering inflation

A recovery in the Euro zone remains nascent. GDP growth stagnated in the third quarter (0.1 per cent q-o-q vis-a-vis 0.3 per cent previously) after the region pulled out of its longest recession in the second quarter. The highest contribution to GDP was made by a change in inventories (0.3 percentage points), while net exports outweighed this by an equal negative contribution as both export and import growth slowed in the third quarter. Unemployment remains high (at 12.1 per cent in October from 12.2 per cent previously).

Euro zone economy

## Euro zone Economy

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## Asian Economy

China's GDP grew at 7.8 per cent y-o-y in the third quarter, picking up from 7.5 per cent in the previous quarter and 7.4 per cent in the same quarter of 2012

Both headline inflation (0.8 per cent y-o-y in December vs. 0.9 per cent in November) and core inflation (0.7 per cent vs. 0.9 per cent in the previous month) eased in December. Lowering inflation (the European Central Bank's target of inflation is close to 2 per cent) poses a risk of deflation in the region. On December 5, 2013, the ECB kept its policy rate unchanged at 0.25 per cent after it reduced it by 25 basis points (bps) last month. The ECB is persisting with an easy monetary stance, focusing on other tools to improve liquidity conditions: long-term refinancing operations with fixed or floating rates and a change in reserve or collateral requirements among other things.

Sentiment indicators signal that economic activity in the region gained momentum in December. The Markit Composite PMI, a survey-based indicator, rose to a 3-month high of 52.1 versus 51.7 in November. A value of above 50 on the index signals an expansion in economic activity, while anything below indicates a contraction from the previous month. The Employment PMI index also improved, signalling that labour market conditions will improve going forward. Country-level PMI indicated that growth remains uneven, with growth in France expected to be muted.

### China: Good export growth seen

Economic activity in China seems to be shaky. While third-quarter GDP growth was higher than the previous quarter and exports jumped in November, industrial activity and investments in fixed assets (January- November) fell. China's GDP grew at 7.8 per cent y-o-y in the third quarter of 2013, picking up from 7.5 per cent in the previous quarter and 7.4 per cent in the same quarter of 2012. Total retail sales of consumer goods rose by 13.7 per cent, which was the highest since December last year. Owing to improved global demand, exports from China rose by 12.7 per cent in November on a y-o-y basis as compared to 5.6 per cent in October. Industrial activity has, however, remained weak. In November 2013, industrial production growth fell to a four-month low of 10 per cent. Manufacturing PMI in December fell to 51.0 from 51.4 in the previous month, indicating weak manufacturing activity. Growth in investments in fixed assets fell to 19.9 per cent for January-November as compared to 20.1 per cent for January-October. Overall, the IMF expects China's GDP growth to slow from 7.6 per cent in 2013 to 7.3 per cent in 2014.

### Japan: Inflation rises at fastest pace since 2008

In the third quarter of 2013, GDP growth slowed to 0.3 per cent q-o-q, vis-a-vis 0.9 per cent in the second quarter. Private consumption, which accounts for 60 per cent of the GDP, registered a weak growth. Exports also moderated as the demand from South East Asia remained weak.

Inflation rose at the fastest pace since 2008 in November (to 1.6 per cent y-o-y from 1.1 per cent in October), coming closer to the Japanese Central Bank's target of 2 per cent. Prices were propped up by a weak currency and higher energy prices. Inflation (excluding fresh food and energy) also rose to 0.6 per cent y-o-y from 0.3 per cent in October. This rise in prices will limit household consumption, unless employers hike wages. Prime Minister Shinzo Abe has been pushing for employers to raise salaries by more than the cost of living in Japan. Wage negotiations in March between trade unions and employers will be important for salary increases.

Retail sales for November were up by 4 per cent y-o-y as households increased spending before the 3 percentage point sales tax hike in April. Exports data registered the ninth consecutive increase in November as global recovery gained momentum (18.4 per cent in November vis-a-vis 18.6 per cent in the previous month). The sustained pick-up in exports could provide some buffer to growth by partially negating the impact of a sales tax hike on private consumption.

### International Trade

Merchandise Trade Balance (Billion, National Currency)

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
United States*	-34.6	-38.8	-38.9	-43.0	-40.6	NA
United Kingdom*	-8.2	-9.7	-9.6	-9.8	-9.7	NA
Euro Area	16.5	18.0	7.1	10.9	17.2	NA
Japan	-181.7	-1,029.5	-962.8	-932.1	-1,092.7	-1,294.1
China (US\$ billion)	27.1	17.8	28.5	15.2	31.1	33.8

Note: \*Goods and services | Source: Statistical Bureau, Respective Countries

Source: CRISIL Research



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