Global Research
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GLOBAL ECONOMY

CRISIL Insights

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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 economy teeters on the edge of recovery

- US growth strengthens in third quarter, making a Fed rate hike in December imminent
- Euro area grows modestly, while Brexit negotiations receive a setback
- China's economic growth remains on government's track

Even as the green shoots of recovery in advanced economies become increasingly visible, the unceasing political uncertainties and a possible backlash against international trade make their existence precarious. GDP growth in the US has strengthened, while it remains stable in China and the euro zone. However, the victory of Donald Trump and his trade protectionist policies in the US presidential election could make Brexit appear to be a dry run. UK, which has recently voted to uncouple itself from the European Union, has seen its GDP growth slow in the first three months following the referendum. Therefore, markets remain wary of the direction Trump will take on global trade. The International Monetary Fund has projected that global growth would slow 10 basis points (bps) from 2015 to 3.1%, weighed down by subdued growth in advanced economies.

Gross Domestic Product (GDP) Heat Map
GDP Growth (Q-o-Q SA annualised %)

	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16
United States	3.9	2.0	1.4	0.8	1.4	2.9
United Kingdom#	0.6	0.4	0.7	0.4	0.7	0.5
Eurozone*	1.6	2.0	2.0	1.7	1.6	1.6
Japan	-1.9	2.1	-1.7	2.1	0.7	2.2
China*	7.0	6.9	6.8	6.7	6.7	6.7

Note: * y-o-y % #q-o-q, not annualized
Source: Statistical Bureau, Respective Countries

Improvement	Decline	Unchanged

US Economy

US GDP grew 2.9% in July-Sept, compared with 1.4% growth in the previous quarter.

Euro zone Economy

Euro-area GDP grew at 1.6% in the third quarter, stable compared with the previous quarter.

US Economy

US economy improves steadily

Even as the presidential election occupied centrestage, the US economy has been showing steady signs of improvement. According to the Bureau of Economic Analysis's first estimate, GDP grew 2.9% in July-September quarter (Q3), compared with 1.4% growth in the previous quarter. The acceleration reflected higher private inventory investment, growth in exports, and federal government spending. Private investment rose 3.1% after three quarters of decline, though fixed investment continued to fall in Q3 for the fourth consecutive quarter. The robust personal consumer expenditure growth moderated, expanding 2.1%, 2.2 percentage points lower than Q2.

September saw US external trade moving in its favour, with exports increasing 0.55% on-month and 0.87% on-year, and imports decreasing 1.3% on-month and on-year. This lowered the trade deficit 9.9% on-month and 11.3% on-year to $36.4 billion. Exports grew 10% on-quarter in Q3 and imports 2.3%, driven by increases in exports of foods, feeds, and beverages and industrial supplies and materials. The labour market continues to strengthen, with 161,000 jobs added in October in the non-farm sector, 5,000 more on-month.

The improving macros have increased the possibility of a December rate hike by the Federal Reserve. Although the Fed kept rates on hold in its November meeting, it maintains the case for increasing rate is strengthening.

Consumer Price Inflation (y-o-y%)

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
United States	1.1	1.0	1.0	0.8	1.1	1.5
United Kingdom	0.3	0.3	0.5	0.6	0.6	1.0
Eurozone	-0.2	-0.1	0.1	0.2	0.2	0.4
Japan	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5
China	2.3	2.0	1.9	1.8	1.3	1.9

Source: Statistical Bureau, Respective Countries

Policy Interest Rate (End of Month %)

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
United States	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
United Kingdom	0.5	0.5	0.25	0.25	0.25	0.25
Eurozone	0.0	0.0	0.0	0.0	0.0	0.0
Japan	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
China	4.35	4.35	4.35	4.35	4.35	4.35

Source: Central Banks, Respective Countries

Euro zone economy

Euro zone stable, while the wait for Brexit negotiations lengthens

Euro-area's (EA-19) economic situation is improving at a modest rate, with Q3 GDP at 1.6%, stable compared with the previous quarter. Industrial production rose 1.6% on-month in August against a 0.7% decline in July. The unemployment rate fell 60 bps on-year to 10.0% in September.

The 20 bps on-month rise in September's CPI inflation to 0.4% was encouraging, as the region is steadily moving towards European Central Bank's 2% inflation target. Industrial producer prices decreased 1.5% on-year in September, compared with a 2.1% fall in August, owing to higher commodity prices. The export decline also reversed in August. As the region stays on a stable albeit a slow recovery path, the European Central Bank kept its monetary policy stance unchanged in its October meeting.

The UK may have started experiencing the impact of Brexit. GDP growth was lower by 20 bps on-quarter at 0.5% in Q3. Strong growth in services at 0.8% was offset by a 1.4% fall in construction, 0.7% fall in agriculture, and 0.4% fall in industry – within which manufacturing fell 1%.

Japan Economy

Japan's GDP grew 2.2% in the third quarter, 1.5 percentage points more on-quarter.

China Economy

China's GDP grew 6.7% in the third quarter, the same rate as the previous quarter.

The weaker pound has helped improve trade in the country's favour. Exports increased 6.1% on-quarter, and imports increased 2.8%, bringing down trade deficit by £1.5 billion to £33.2 billion. However, trade deficit with the EU widened by £0.4 billion to £23.8 billion, as imports increased more. Meanwhile, in a major setback to the Brexit camp, UK's High Court ruled the government cannot commence Brexit negotiations without approval of the parliament which alone has the power to trigger Article 50 and notify Brussels of UK's intention of leaving the EU. Although the government has said it will challenge this ruling, the delay in initiating negotiations will prolong economic uncertainty.

Japan yet to witness a concrete recovery

Japan's GDP growth is see-sawing; at 2.2% Q3 growth is 1.5 percentage points more on-quarter, driven by faster growth in net exports.

However, other indicators still paint a grim picture. Monthly consumption expenditures fell for the fifth consecutive month at 2.1% in September.

The economy remains in deflationary territory, with CPI inflation at -0.5% in September, the same rate as the previous month. The environment is adversely affecting business sentiment. Core private sector machinery orders – an indicator of future capital spending – fell for the second consecutive month at 3.3% in September. The government expects they will fall to -5.9% in Q4, dragging down investment spending. The index of industrial production grew 0.9% on-year, lower than 4.9% in the previous month.

Trade (not seasonally adjusted) was also weak in September, as exports fell 6.9% on-year, and imports fell at an even greater 16.3%. A strong yen continues to hurt export earnings.

China continues to defy slowdown

The Chinese economy seems to be doing well, at least by the numbers. GDP grew 6.7% in Q3, the same rate as the previous quarter and in line with government's target of achieving 6.5-7% growth. Tertiary industry (7.6% on-year growth) grew faster than secondary (6.1%) and primary (3.5%) industries – also in line with government's intent of rebalancing the economy from industry to services.

Despite the rebalancing, the manufacturing sector is expanding, as indicated by China's National Bureau of Statistics' Purchasing Managers Index (PMI). Manufacturing PMI was 51.2% in October, 80 bps higher than September. A PMI reading above 50 indicates expansion in business activity. Manufacturing PMI was at 50.4, stable compared with the previous month. In September, industrial production had grown 6.1% on-year, 20 bps lower on-month. On the other side, non-manufacturing PMI was also 30 bps up from September to 54% in October.

Consumer price index rose 2.1% on-year in October, 20 bps more on-month. The Producer Price Index also rose for the second consecutive month 1.2% on-year in October, accelerating 1.1 percentage points from the previous month.

OPEC brings cheer to oil markets

Oil markets performed well for most of October, buoyed by the Organisation of Petroleum Exporting Countries' (OPEC's) long-awaited decision to cap production. In September, OPEC had agreed to reduce oil production from 33.1 million barrels a day to 32.5-33 million. Europe Brent spot price averaged $49.5 per barrel, 6.3% more than the previous month. For fiscal 2017, CRISIL Research expects Brent crude at $42-$47 per barrel in fiscal 2017 compared with $47.4 in fiscal 2016.

While energy prices rose in October, non-energy commodities continued to fall. According to World Bank's Pink Sheet data, prices of non-energy commodities decreased by 0.3%. Food prices fell 0.9%, and beverages by 0.4%.

Source: CRISIL Research

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CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

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