

Economic forecast summary: July 2014

The
Economist

Intelligence
Unit



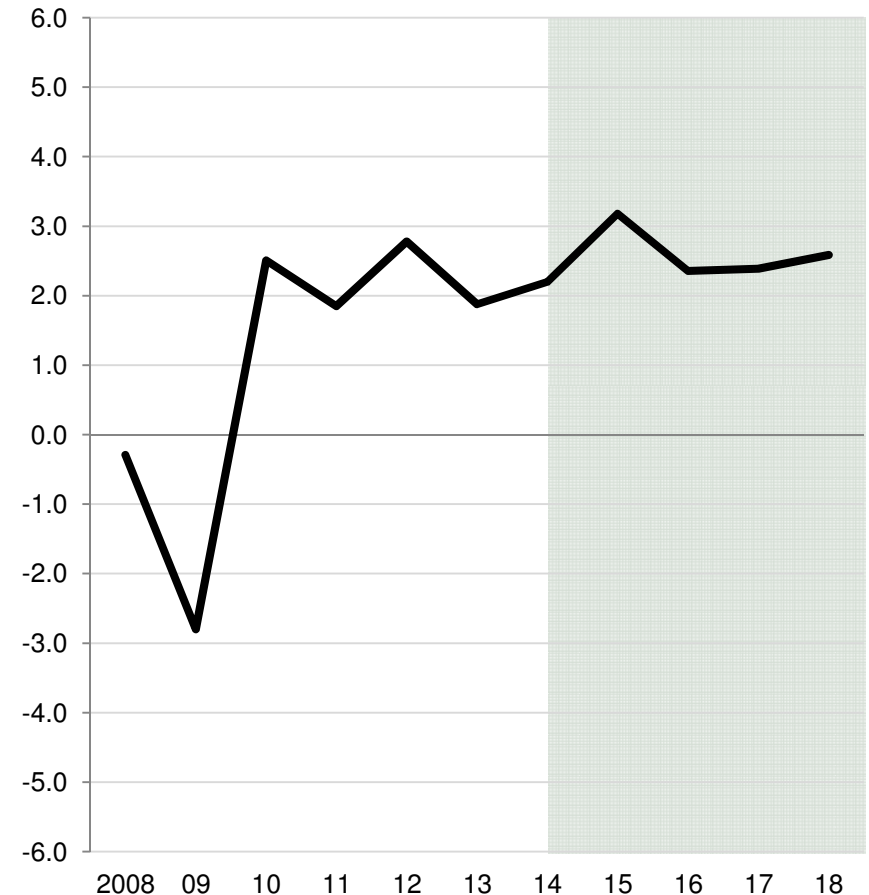
Global forecasting service

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- » The Economist Intelligence Unit has lowered its 2014 forecast for real GDP growth to 2.2% from 2.5%.
- » Employment and consumer confidence are strong but the weather-induced slump in the economy at the start of the year was worse than first thought.
- » We expect real GDP to expand by more than 3% at an annual rate in the final three quarters of 2014 and by 3.2% in 2015.
- » Job growth has averaged 231,000 a month over the past four months, and the unemployment rate of 6.3% is the lowest for five years.

US: Real GDP growth

(% change, year on year)



Source: The Economist Intelligence Unit, *Global Forecasting Service*.

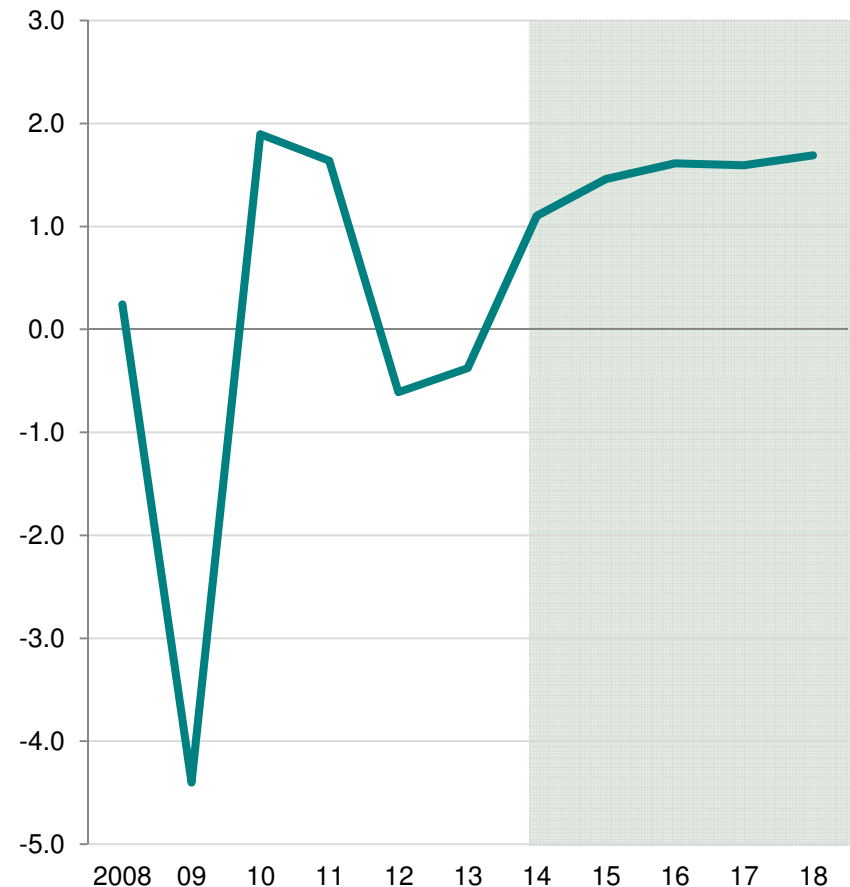
Western Europe economic outlook

The Economist

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- » We maintain our forecast for 2014 euro zone growth of 1.1%.
- » In the first quarter the German economy grew at twice the rate of the prior quarter, led by strong construction spending.
- » The picture is more subdued elsewhere in the euro zone: France stagnated in the first quarter and Italy's economy contracted.
- » Deflationary pressures pose a threat to the euro zone's recovery. The ECB responded by announcing a range of monetary easing measures in June. These measures have eased upward pressure on the euro.

Euro zone: Real GDP growth
(% change, year on year)



Source: The Economist Intelligence Unit, *Global Forecasting Service*.

US

Western Europe

Japan

Emerging markets

Oil

Non-oil commodities

Monetary policy

Currency

Forecast risks

Forecast risks (cont.)

Summary

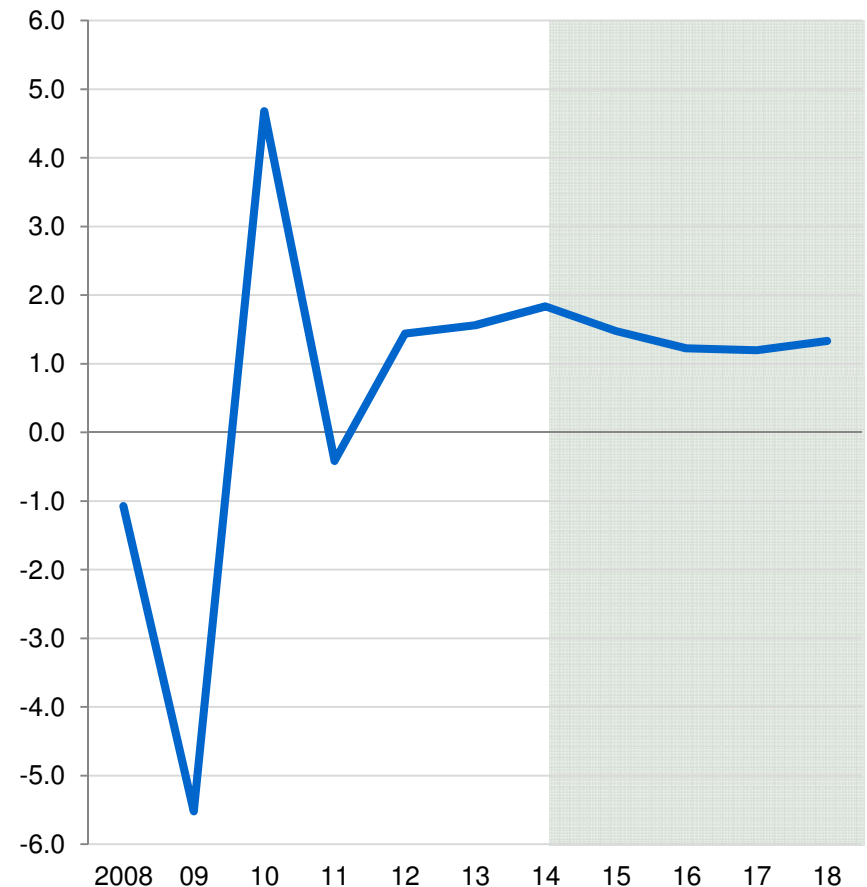
Japan economic outlook

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- » Japan's economy expanded by 6.7% at an annualised rate in the first quarter. Some of that growth was a one-off as consumers and businesses spent heavily early in the year to pre-empt an April 1st tax increase.
- » The second quarter will be soft but we have raised our 2014 GDP growth forecast to 1.7% from 1.5%.
- » A weak yen is helping Japan's exporters and contributing to an uptick in inflation. Real interest rates have become negative for the first time in years.
- » The ageing of the population and disorderly public finances will constrain economic growth in the medium term.

Japan: Real GDP growth
(% change, year on year)



Source: The Economist Intelligence Unit, *Global Forecasting Service*.

US

Western
Europe

Japan

Emerging
markets

Oil

Non-oil
commodities

Monetary
policy

Currency

Forecast
risks

Forecast
risks (cont.)

Summary

Emerging market economic outlook

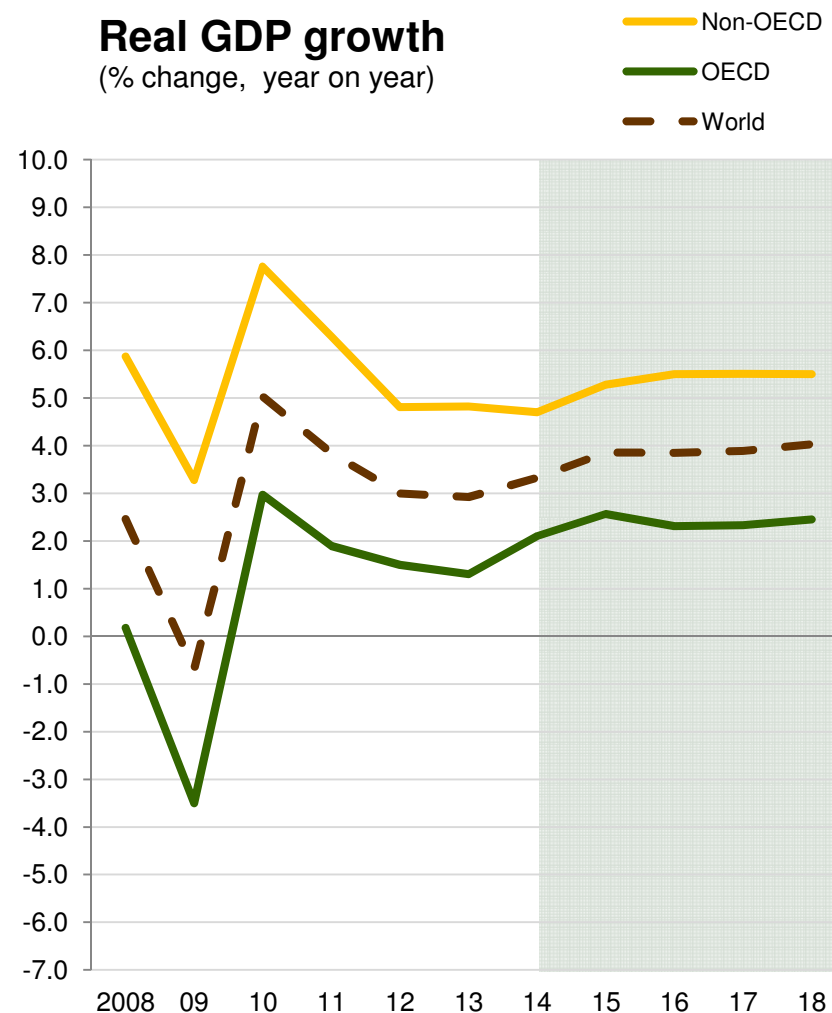
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- » Sentiment towards emerging markets remains skittish but investors are showing more discrimination between countries than in the mid-2013 sell-off.
- » We expect growth in Russia to slow to 0.5% from 1.8%. Western sanctions, capital flight and rising interest rates put the economy at risk of outright recession.
- » In China the authorities are trying to curb credit growth while maintaining growth of around 7.5%.
- » India's elections gave an outright majority to the BJP, which should facilitate implementation of the party's pro-business policies.

Real GDP growth

(% change, year on year)



Source: The Economist Intelligence Unit, *Global Forecasting Service*.

US

Western
Europe

Japan

Emerging
markets

Oil

Non-oil
commodities

Monetary
policy

Currency

Forecast
risks

Forecast
risks (cont.)

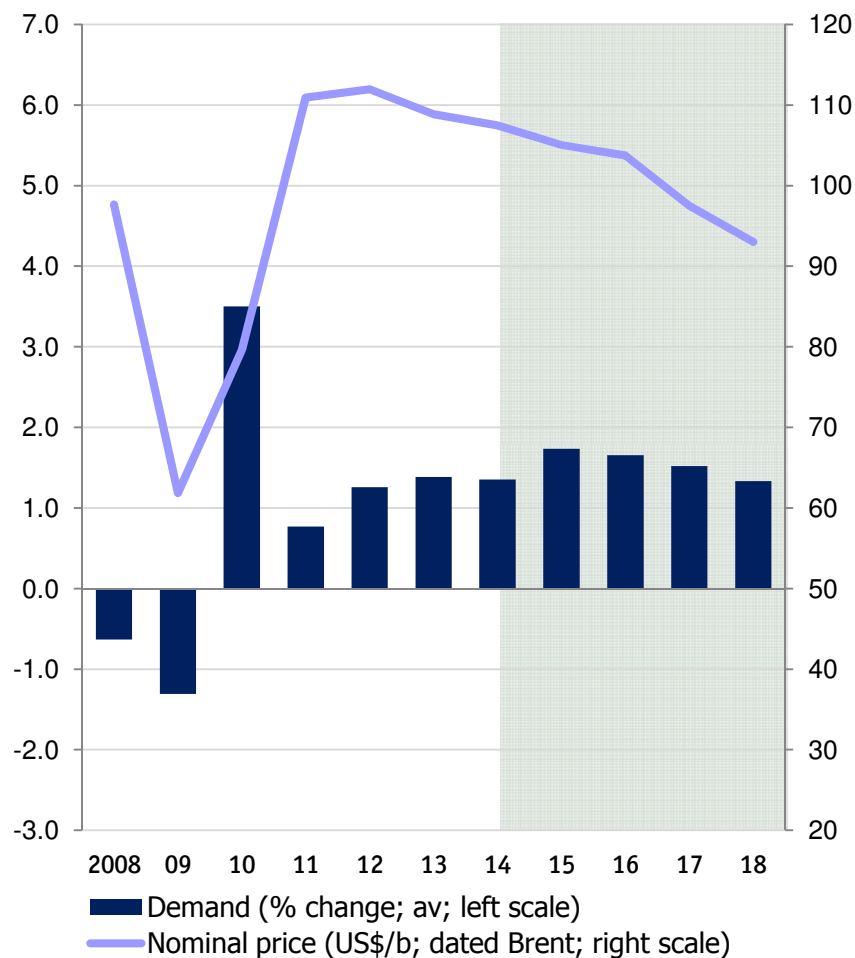
Summary

Oil price and demand outlook

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Oil prices and demand



Sources: International Energy Agency; The Economist Intelligence Unit; IMF, *International Financial Statistics*.

- » We have revised up our forecast for Brent oil prices this year to an average of US\$107.47. Political unrest in Iraq and supply outages from Libya and other smaller producers have added some upward momentum to prices in the second quarter
- » Large production increases from the US will help to offset the shortfall in the market
- » Demand in several major emerging markets has been slow in 2014 so far but we still expect non-OECD demand to outpace developed countries' oil consumption

US

Western Europe

Japan

Emerging markets

Oil

Non-oil commodities

Monetary policy

Currency

Forecast risks

Forecast risks (cont.)

Summary

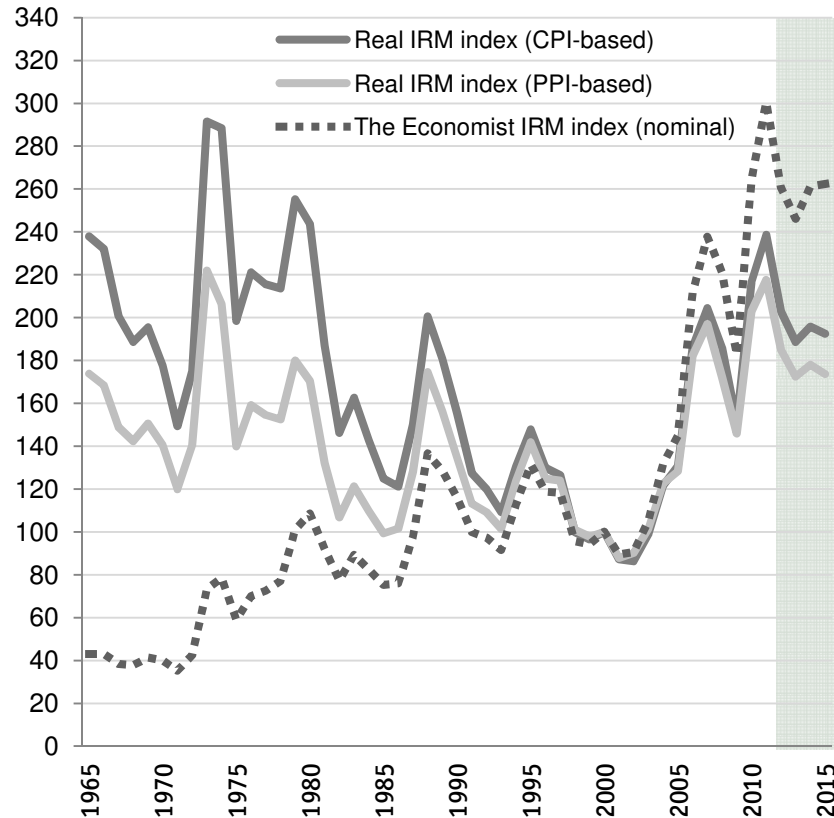
Non-oil commodities outlook

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Industrial raw materials index

(2000=100)



Note: IRM index includes base metals, natural rubber and fibres.

Source: The Economist Intelligence Unit, *Global Forecasting Service*.

- » A heavy supply picture in many major commodity markets will weigh against prices in 2014-15.
- » Our industrial raw materials (IRM) index will fall by over 4% in 2014 as weakness in the aluminium, copper and rubber markets drags down the index.
- » We expect the food, feedstuffs and beverages (FFB) index to fall by 2.2% as favourable weather conditions in the US have eased concerns about major cereal crops
- » Population growth and urbanisation will support industrial and soft commodity prices in the medium and long term.

US

Western
Europe

Japan

Emerging
markets

Oil

Non-oil
commodities

Monetary
policy

Currency

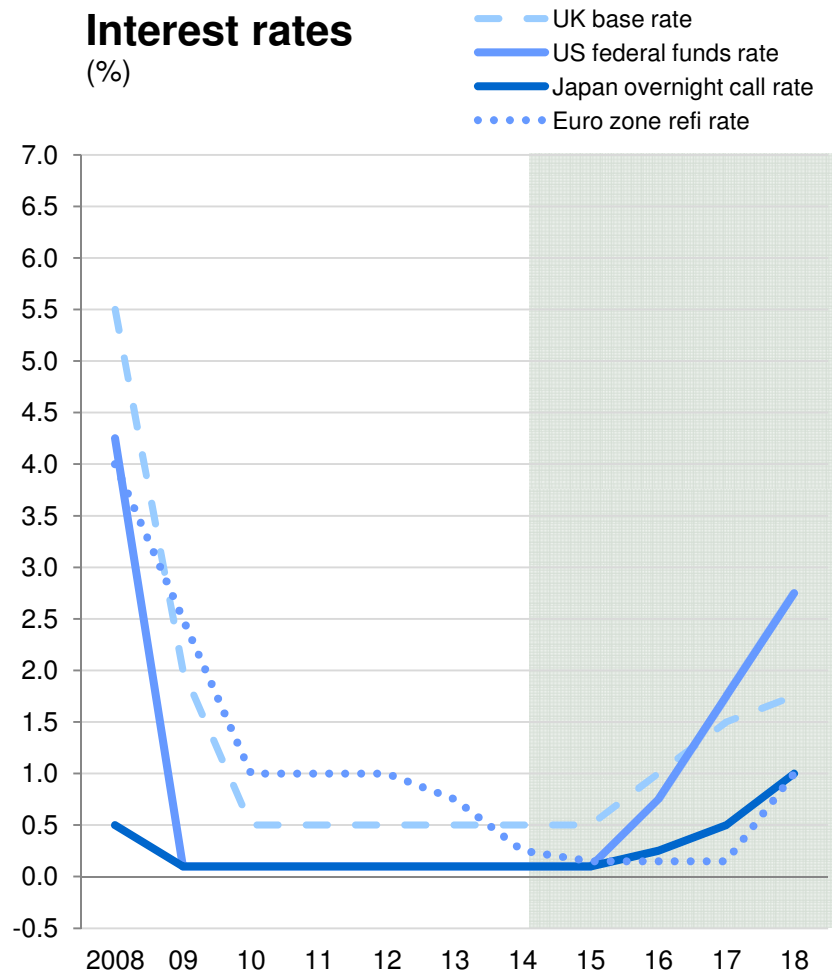
Forecast
risks

Forecast
risks (cont.)

Summary

Monetary policy outlook

Interest rates (%)



Source: Haver Analytics.

- » We expect the US Fed to continue reducing its asset purchases by US\$10bn at each Federal Open Market Committee meeting. This would conclude QE3 by October.
- » Bond yields have fallen so far in 2014 but we expect them to rise later in the year. We do not expect US policy rates to rise until the second half of 2015.
- » In response to concerns about deflation, the European Central Bank cut interest rates in June and announced a range of measures to boost liquidity. The ECB is considering asset purchases.

US

Western Europe

Japan

Emerging markets

Oil

Non-oil commodities

Monetary policy

Currency

Forecast risks

Forecast risks (cont.)

Summary



Source: The Economist Intelligence Unit, *Global Forecasting Service*.

- » Monetary easing by the ECB has taken some of the steam out of the single currency in June.
- » We expect monetary tightening by the US Fed to lead to US dollar strength in the second half of 2014. For 2014 as a whole we expect the euro:dollar exchange rate to average of US\$1.34:€.
- » EM currencies remain vulnerable to US monetary tightening. Over the medium term they should gain support by positive growth and interest rate differentials with OECD economies.

US

Western Europe

Japan

Emerging markets

Oil

Non-oil commodities

Monetary policy

Currency

Forecast risks

Forecast risks (cont.)

Summary

Scenario

- Deflation derails the economic recovery in the euro zone
- Civil war in Syria escalates into a wider regional conflict
- Tensions over currency volatility lead to a rise in protectionism
- The emerging market slowdown drags the world back into recession
- US economy stumbles in the face of monetary tightening

Intensity



Risk intensity is a product of probability and impact, on a 25-point scale

Source: The Economist Intelligence Unit, *Global Forecasting Service*.

US

Western Europe

Japan

Emerging markets

Oil

Non-oil commodities

Monetary policy

Currency

Forecast risks

Forecast risks (cont.)

Summary

Scenario	Intensity
- Russia's intervention in Ukraine leads to Cold War-era tensions	12
- Tensions over disputed islands ruptures Sino-Japanese ties	12
+ A rapid recovery in parts of the OECD drives global growth higher	12
- Economic upheaval leads to widespread social and political unrest	9
+ A sustained decline in oil prices provides a global economic fillip	8

Risk intensity is a product of probability and impact, on a 25-point scale

Source: The Economist Intelligence Unit, *Global Forecasting Service*.

US

Western Europe

Japan

Emerging markets

Oil

Non-oil commodities

Monetary policy

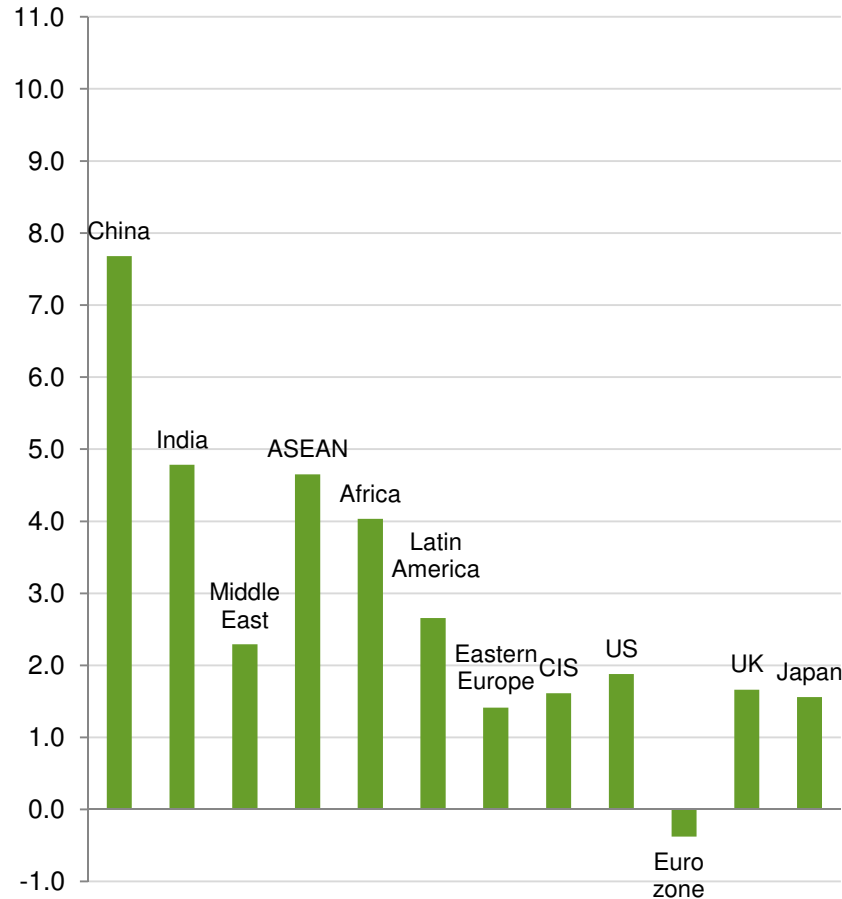
Currency

Forecast risks

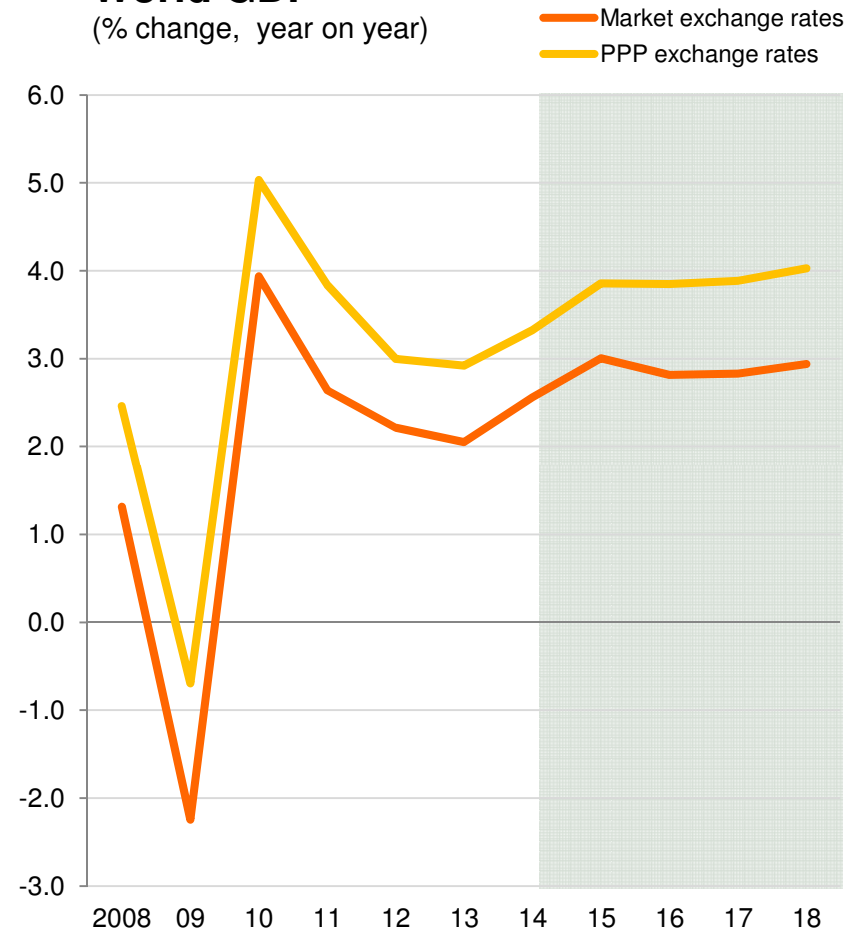
Forecast risks (cont.)

Summary

Real GDP, 2013
(% change, year on year)



World GDP
(% change, year on year)



Source: The Economist Intelligence Unit, *Global Forecasting Service*.

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