

FIGURE  
OF THE WEEK

## 195,000

New job creation  
in US in June  
employment  
report

## In the headlines



### World Economy: IMF revises down its forecasts

The IMF revised downward its forecasts for global growth in both 2013 and 2014, to +3.1% and +3.8%, respectively (-0.2pps from April 2013) reflecting weaker-than-expected economic performances in both advanced economies (-0.1pps to +1.2% in 2013) and emerging economies (-0.3pps to +5% in 2013). The revisions still point to a divergence within the advanced economies, particularly the deeper-than-expected recession within the eurozone (-0.2pps to -0.6%) and the softness of the US economy (-0.2pps to +1.7%) against the stronger-than-expected GDP growth in Japan (+0.5pps to +2%). Forecasts for the BRICS have been revised down as well, reflecting lower commodity prices, slower external demand growth and tighter financial conditions. Global trade is now expected to grow at a slower pace in 2013 (+3.1% after +2.5%) and to pick up in 2014 (+5.4%). All in all, the IMF scenario remains slightly more optimistic than EH, notably with regard to the advanced economies.



### Eurozone: ECB's dovish forward guidance

The ECB surprised positively by adopting a new communication strategy following its latest meeting. The new forward guidance ('key ECB interest rates to remain at present or lower levels for an extended period of time') aims at restoring confidence in eurozone markets and helping recovery in investment through lower cost of credit. EH expects the ECB to lower its key interest rate by year-end on the back of a subdued outlook for underlying inflation in the medium term (below 2%) and to announce further unconventional measures to support bank lending (LTROs). As suggested by the ECB, the key drivers for further measures are based on the inflation outlook, economic growth and monetary dynamics (including yield curve and credit to the private sector). In parallel, the BoE seems to be following the same strategy, with dovish forward guidance to keep interest rates at low levels and fuel the economy.



### Germany: Mixed growth indicators

New orders received by the industrial sector were disappointing in May, falling by -1.3% mo/mo, following -2.2% in April. Foreign demand declined at a slower pace (-0.7%) than domestic demand (-2%) in May, with a continuing significant fall in demand from the eurozone (-3.9% after -3.5% in April), although an increase in orders from countries outside the Eurozone was recorded (+1.1% after a slight dip in April of -0.2%). Moreover, industrial production was down by -0.7% in May after +1.6% in April, including lower output in the clothing industry (-5.7%), machinery (-4.4%) and automotive suppliers (-3%), while chemicals (+5.1%) and the computers and electronics industry (+2.8%) recorded higher output. In addition, production in construction was down by -2.6% in May after +8.3% in April. By contrast, the Ifo Business Climate Index continued to brighten in June, albeit by a modest rate of +0.2%, following +1.2% in May.



### Egypt: Heightened uncertainties

Following last week's ousting of the elected president, Mohamed Morsi, the military installed Adli Mansouri, a leading judge, as interim leader to oversee a period until new elections are held. A new PM was also appointed, Hazem al-Biblawi, a liberal economist, who will head a broad-based cabinet. To date, US aid has not been halted and Saudi Arabia and the UAE have pledged USD8 billion in additional support. However, demonstrations by pro-Morsi supporters and a general crackdown by security forces have engendered a hostile and fragile environment, with significant downside risks for the country and region. To prevent further escalation, the new regime needs to adhere to pledges of an all-inclusive political system (although the arrest of leaders of the Moslem Brotherhood does not suggest this will materialise in the short term), hold elections as quickly as is expedient and (somehow) improve overall welfare against a very weak economic background. No easy task.

# Countries in Focus

## America



### US: Labour market positive, but not much joy elsewhere

June's employment report was largely positive with 195,000 new jobs and upward revisions that pushed April and May levels up a total of 70,000 to 195,000 and 199,000, respectively. The rate of unemployment, the participation rate, duration of unemployment and wage growth are still at very weak levels, but they all improved, adding to speculation that the Fed is likely to start tapering its bond purchases at its September meeting. Meanwhile, the ISM non-manufacturing index slowed to 52.2 from 53.7, although this remains in expansionary territory, and the May trade deficit widened by USD5 billion, weighing on Q2 GDP. Additionally, the Small Business Optimism Index crept down in June and Q2 earnings reports began with meagre growth expectations of less than 2% for the S&P 500.

## Europe



### Slovak Republic: Domestic demand remains weak

Q1 real GDP increased by +0.6% y/y (+0.7% in Q4 2012) and +0.2% q/q (+0.1% in Q4). Domestic demand continued to decline, with private consumption down by -0.9% y/y in Q1, public consumption by -0.6% and fixed investment by -8.4%. Moreover, the marked fall in gross capital formation of -14.6% y/y suggests that inventories decreased significantly. Exports increased by +4.2% y/y in Q1, outpacing import expansion of +1.6%, so that net exports continued to drive overall growth. It appears that the downtrend in growth over the course of 2012 bottomed out in Q1 and EH expects economic activity to gain some momentum in H2, resulting in full year growth of around +1% in 2013. Consumer price inflation remained moderate at 1.7% y/y in May, unchanged from April.

## Africa & Middle East



### Morocco: GDP growth bounces back

Q1 GDP growth was +3.8% y/y, compared with +2.1% in Q4 2012. For the full year 2012, GDP expanded by only +2.7% (+5% in 2011) but this mainly reflects severe drought conditions that reduced agricultural output growth and weakened household incomes and consumption. In 2012, agricultural output contracted by -8.9% but in Q1 2013, following good rains in the latter part of the previous year, it increased by +17.7% y/y. Agriculture now accounts for just over 14% of GDP but it has a strong multiplier effect through the economy as it is a large employer (40% of the labour force) and source of rural incomes. EH expects GDP growth of around +4.5% in 2013 but there are downside risks from continuing weakness in some key European markets (affecting the tourist sector, inward investment and workers' remittances, as well as merchandise trade flows) and from uncertain regional issues, including events in Egypt.

## Asia Pacific



### Japan: Economic sentiment weakens

Bank lending continued to grow in June (+1.9% after +1.8% in May), illustrating the efficiency of monetary policy in easing lending conditions in order to boost demand. However, latest surveys highlight uncertainty relating to the durability of the recovery. The indices of the Economy Watchers Survey declined in June, for both current conditions (from 55.7 to 53) and outlook (from 56.2 to 53.6), driven by a fall in all the components (households, business and employment). In parallel, the consumer confidence index decreased from 45.7 to 44.3. These figures underline the relative fragility of the Japanese economic recovery, which is mainly fuelled by a very accommodative monetary policy, with no real improvement in fundamentals (especially wages). EH expects economic activity to be relatively dynamic in 2013 (+1.6%) but to slow in 2014 (+1.4%).



## What to watch

- July 11 – France June CPI.
- July 11 – Japan July BoJ overnight rate.
- July 11 – Italy to issue EUR6.5bn LT bonds.
- July 12 – Brazil May GDP proxy.
- July 12 – Eurozone May industrial production.
- July 12 – Japan May industrial production.
- July 15 – Eurozone July economic sentiment.
- July 15 – US June retail sales.
- July 16 – US June industrial production.

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