

Considerations about the world recovery and the euro area

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PART 1: WHAT ARE THE DATA TELLING US?

The short run 2013

The IMF view

From the April to the October WEO

Relatively stable on advanced economies (slightly revised down the US, down in July and up again the EA due to more optimism for France and Spain), larger downward revisions for emerging markets: China and Brazil but especially India and Mexico

World output:	2.9 (from 3.2)	2014: 3.6
Advanced economies:	1.2	2.0
Emerging markets:	4.5 (from 5)	5.1

The very short run

Now-Casting 2013

Since April:

- Stable on the US
- Revised upward the EA

Since July:

- Revised up China, the UK, Japan and Brazil
- **G3 up from 2.35 to 2.43**

Now-casting

Mimic the market

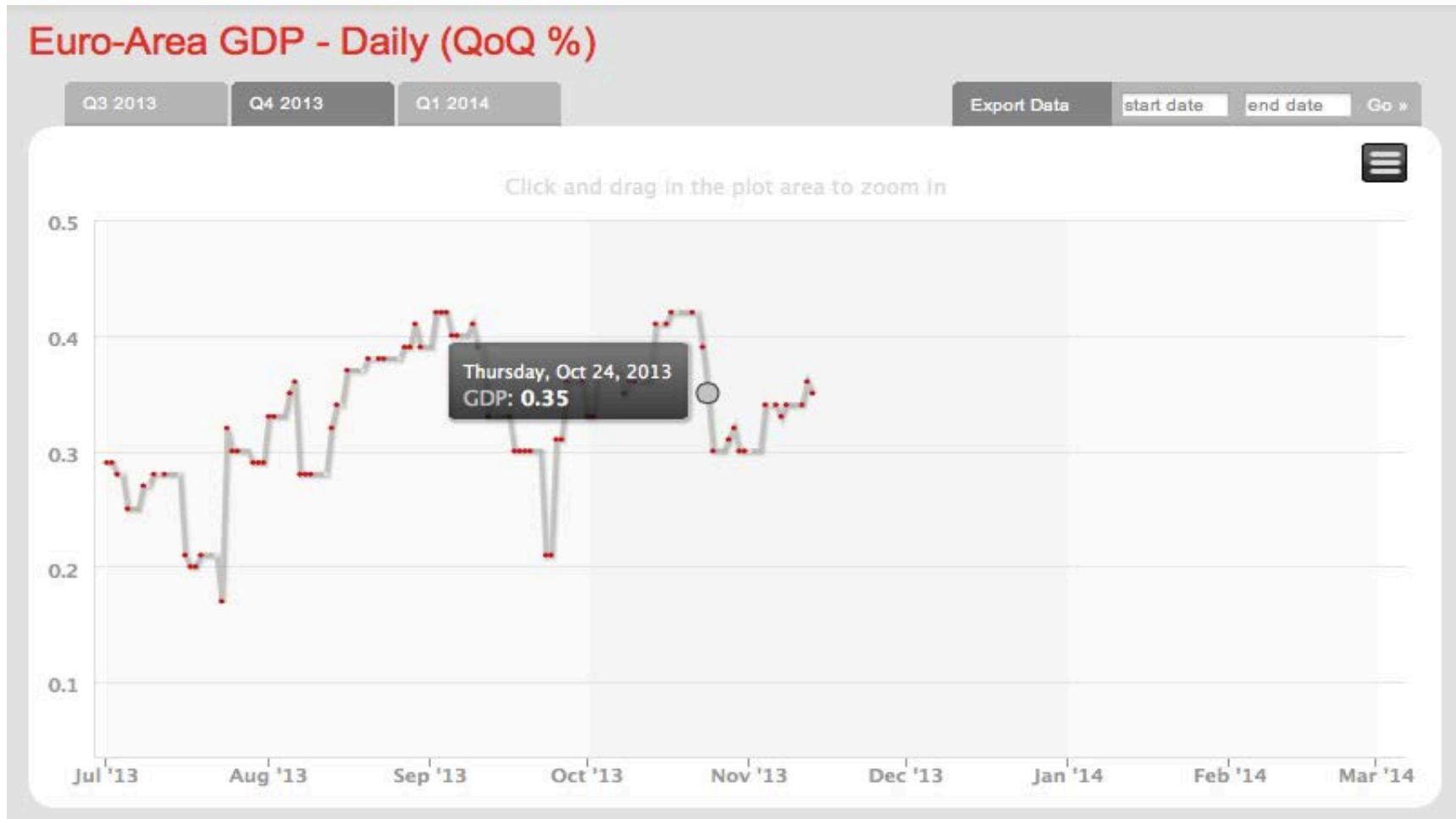
- Follow all important releases on Bloomberg calendar
- Read them through the lenses of a model – no moods – just a machine
- The machine produces a now-cast of every release – we have a forecast error (the news) related to each of them
- Change your view on GDP whenever you are “surprised” but any of those data releases that you consider in your machine

The real time data flow ... (Forex calendar)



This Week: Nov 10 - Nov 16					Up Next			
Date	7:42am	Currency	Impact	Detail	Actual	Forecast	Previous	Graph
Sun Nov 10								
Mon Nov 11	All Day	EUR	🏠	French Bank Holiday	📁			
	4:00am	EUR	📈	Italian Industrial Production m/m	📁	0.2%	0.2%	-0.2% ↘
	12:00pm	EUR	📈	German Buba President Weidmann Speaks	📁			
Tue Nov 12	2:00am	EUR	📈	German Final CPI m/m	📁	-0.2%	-0.2%	-0.2%
		EUR	📈	German WPI m/m	📁	-1.0%	0.3%	0.7%
Wed Nov 13	5:00am	EUR	📈	Industrial Production m/m	📁	-0.5%	-0.2%	1.0%
	7:10am	EUR	📈	German Buba President Weidmann Speaks	📁			
Thu Nov 14	▶1:30am	EUR	📈	French Prelim GDP q/q	📁		0.1%	0.5%
	2:00am	EUR	📈	German Prelim GDP q/q	📁		0.3%	0.7%
	2:45am	EUR	📈	French Prelim Non-Farm Payrolls q/q	📁		-0.1%	-0.2%
		EUR	📈	French CPI m/m	📁		0.0%	-0.2%
	4:00am	EUR	📈	ECB Monthly Bulletin	📁			
		EUR	📈	Italian Prelim GDP q/q	📁		-0.2%	-0.3% ↘
	5:00am	EUR	📈	Flash GDP q/q	📁		0.2%	0.3%
	All Day	EUR	📈	Eurogroup Meetings	📁			
Fri Nov 15	4:00am	EUR	📈	Italian Trade Balance	📁		1.63B	0.96B
	5:00am	EUR	📈	CPI y/y	📁		0.7%	0.7%
		EUR	📈	Core CPI y/y	📁		0.8%	1.0%
	All Day	EUR	📈	ECOFIN Meetings	📁			

Source: Forex Factory

Evolving Now-Cast for the Euro Area Q4 – October 24



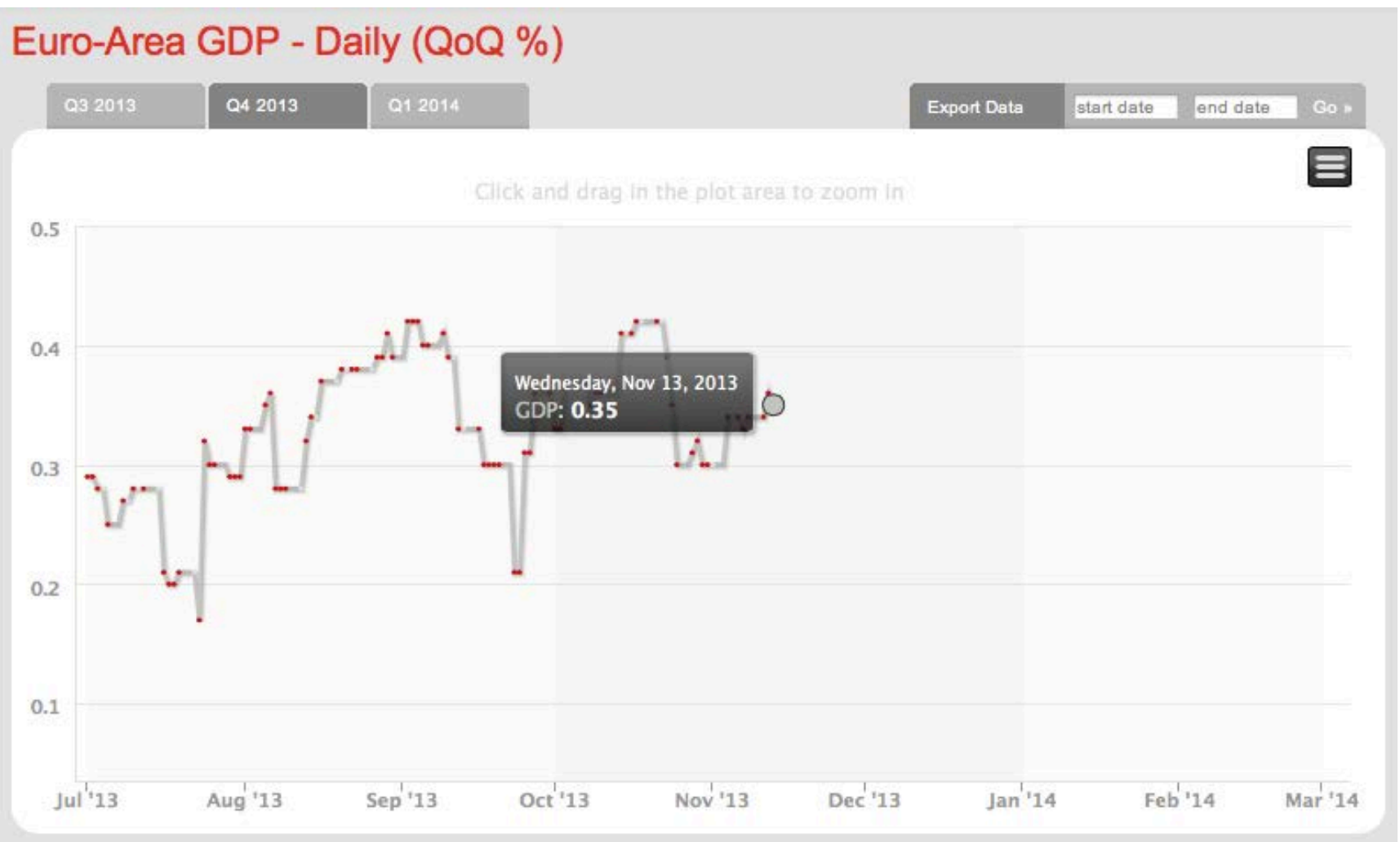
On each day the model reacts to the various data releases, adjusting its now-cast of GDP in relation to the 'news' in each release

Thursday, October 24, 2013  

Date	Country	Release	Actual	Unit	Period	Weight (x100)	News	Impact (x100)
24 October 17:20	France	Registered Unemployed	3,295.70	Thousands	Sep-13	-0.06	0.00	0.00
24 October 09:37	Italy	ISAE Consumer Confidence Indicator	97.30	Index	Oct-13	0.04	-3.09	-0.13
24 October 09:37	Euro-Area	PMI: Manufacturing	51.30	Index	Oct-13	2.23	0.22	0.50
24 October 09:37	Euro-Area	PMI: Services	51.55	Index	Oct-13	0.15	-1.39	-0.21
24 October 09:06	Germany	PMI: Manufacturing	51.67	Index	Oct-13	2.43	0.22	0.55
24 October 09:06	Germany	PMI: Services	52.93	Index	Oct-13	0.81	-1.34	-1.08
24 October 09:06	France	PMI: Services	50.87	Index	Oct-13	0.89	-1.89	-1.68

Prior GDP Nowcast	0.39
Revised GDP Nowcast	0.35

TODAY?



TODAY

Wednesday, November 13, 2013



Date	Country	Release	Actual	Unit	Period	Weight (x100)	News	Impact (x100)
13 November 10:05	Euro-Area	Industrial Production Excl Construction	-0.45	MoM %	Sep-13	3.84	-0.20	-0.75

Prior GDP Nowcast 0.36

Revised GDP Nowcast 0.35

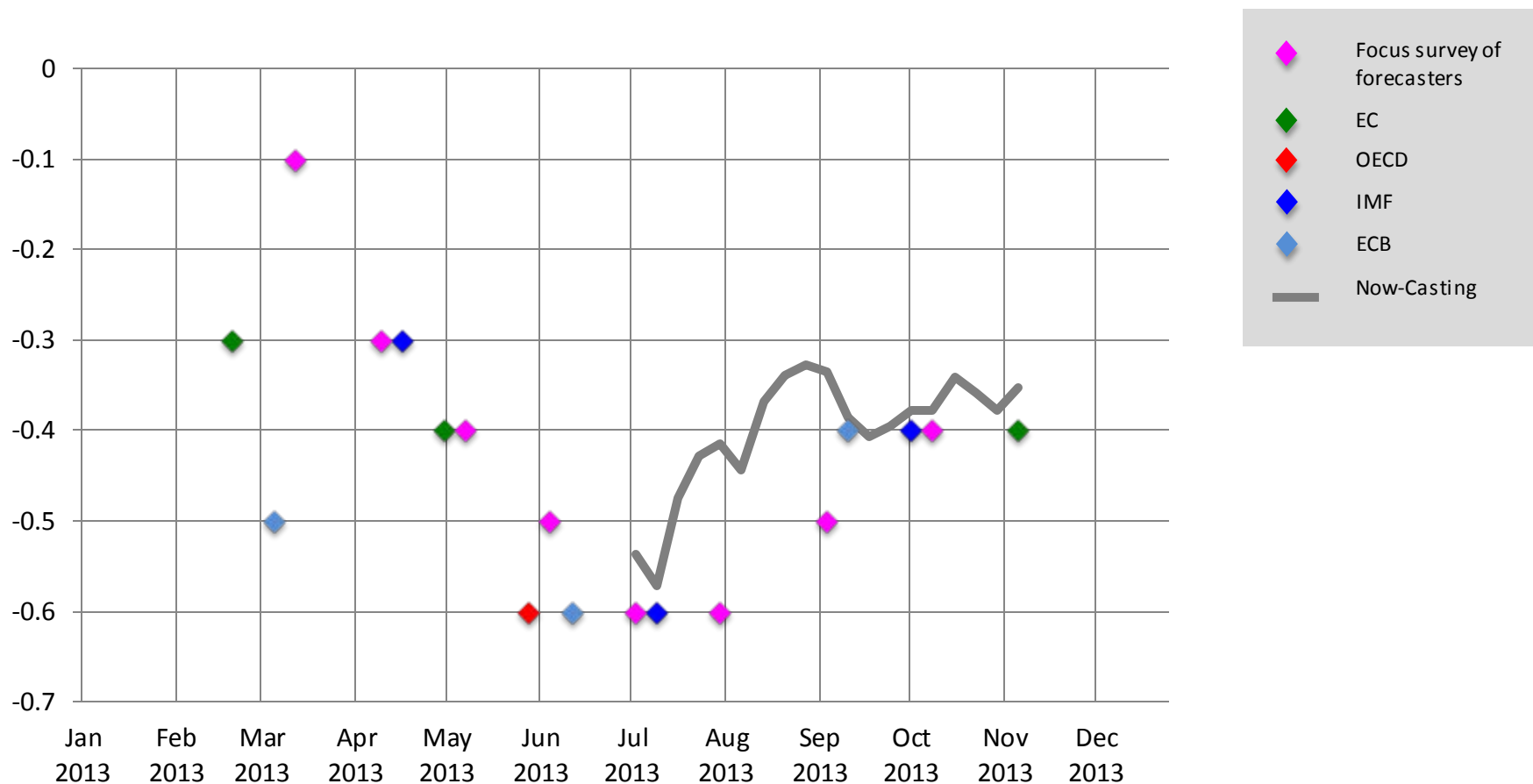
GOING BACK FEW MONTHS
HOW HAS OUR VIEW EVOLVED?



Progressively more optimistic about the Euro Area – in line with other forecasters

EURO AREA – CALENDAR YEAR 2013

% GDP growth, annual



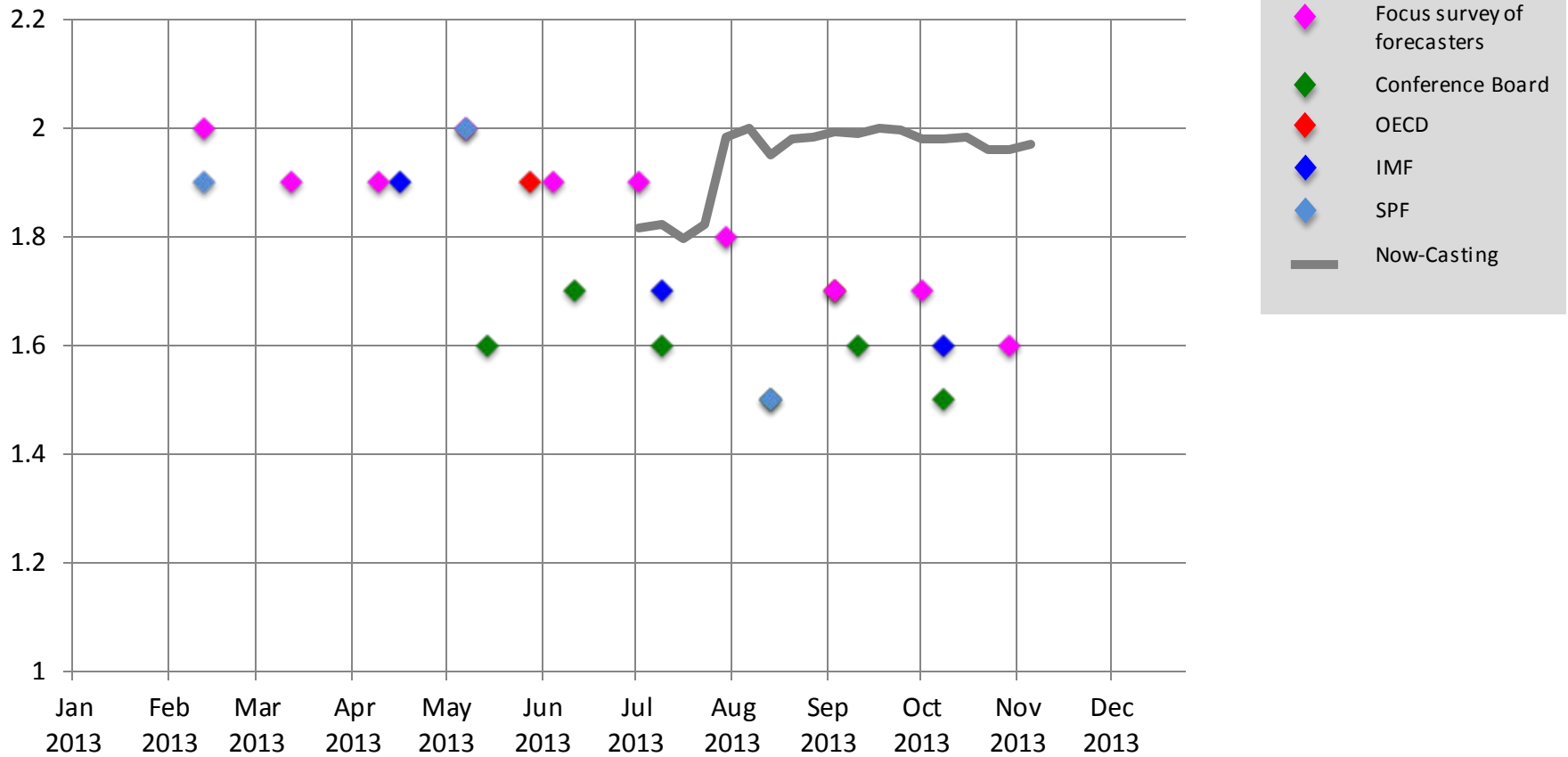
Source: Now-Casting Economics Ltd



Steady view of the US – widening gap vs other forecasters

US – CALENDAR YEAR 2013

% GDP growth, quarter-on-quarter

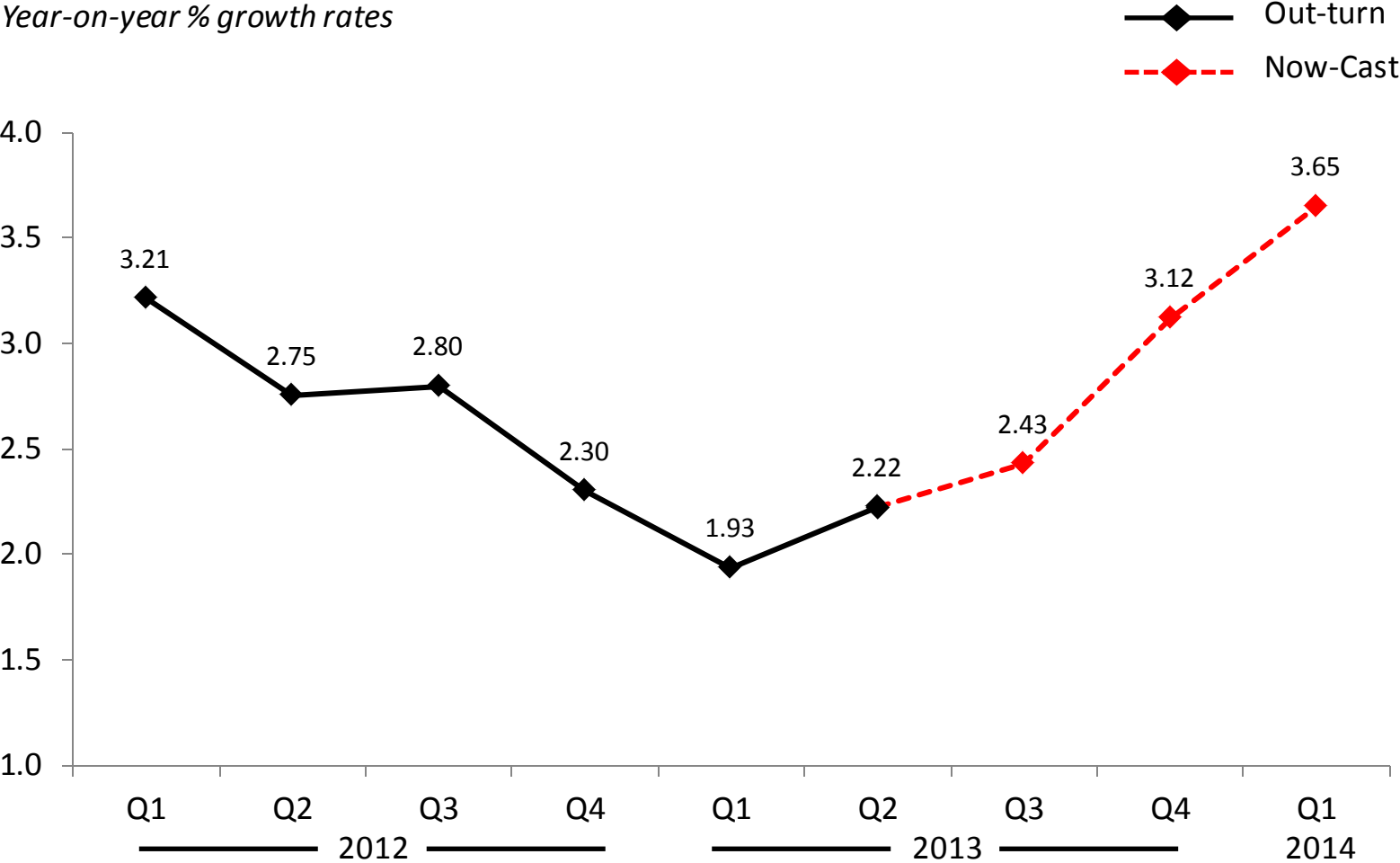


Source: Now-Casting Economics Ltd

G3 shows strengthening growth around the world

GDP GROWTH FOR THE G3 – US, EURO AREA AND CHINA

Year-on-year % growth rates

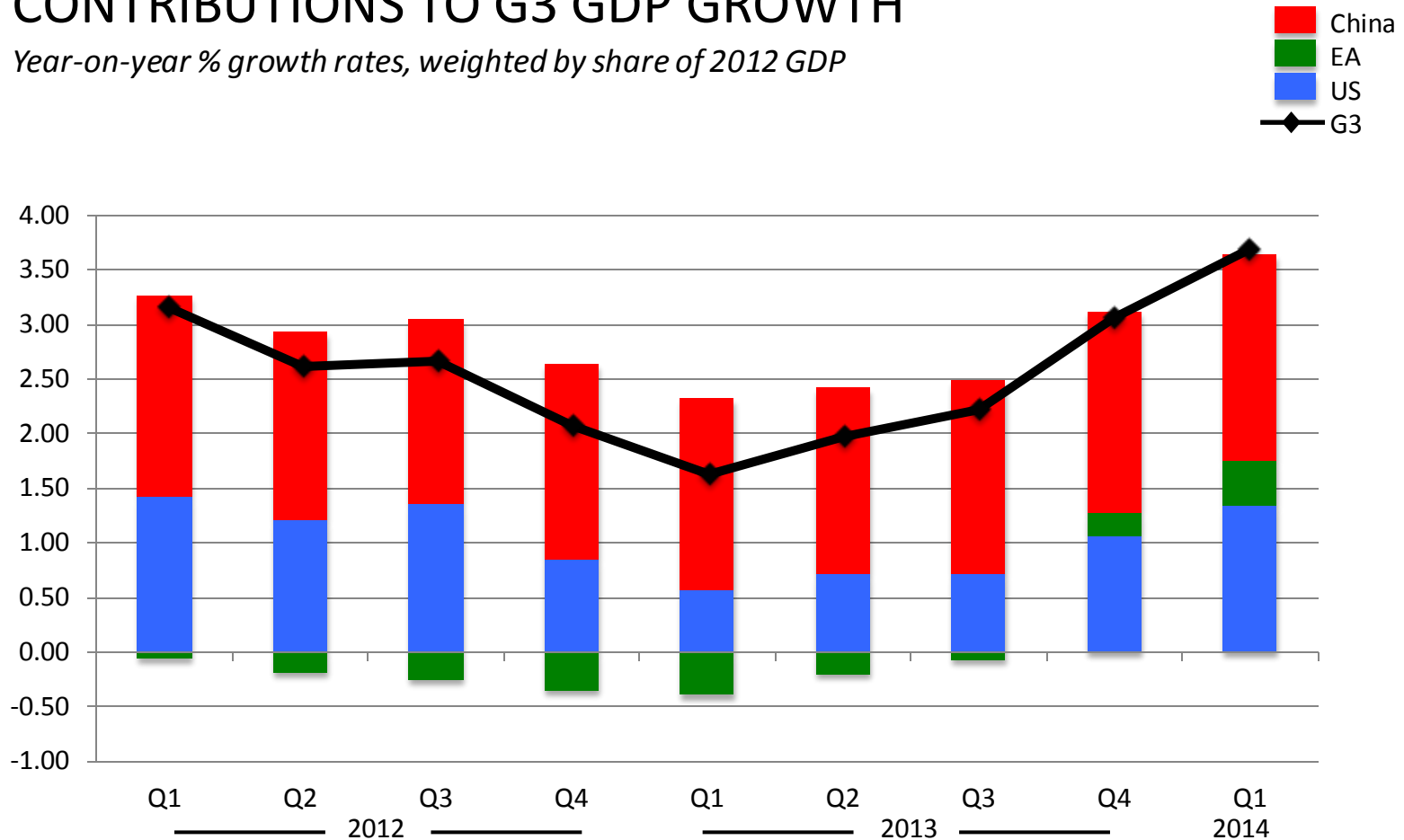


Sources: US Bureau of Economic Analysis; Eurostat; National Bureau of Statistics of China; IMF World Economic Outlook, April 2013; Now-Casting Economics Ltd

And contributions to growth more evenly spread

CONTRIBUTIONS TO G3 GDP GROWTH

Year-on-year % growth rates, weighted by share of 2012 GDP



* Contributions to G3 growth weighted by share of 2012 GDP according to IMF World Economic Outlook

Sources: US Bureau of Economic Analysis; Eurostat; National Bureau of Statistics of China; IMF World Economic Outlook, April 2013; Now-Casting Economics Ltd

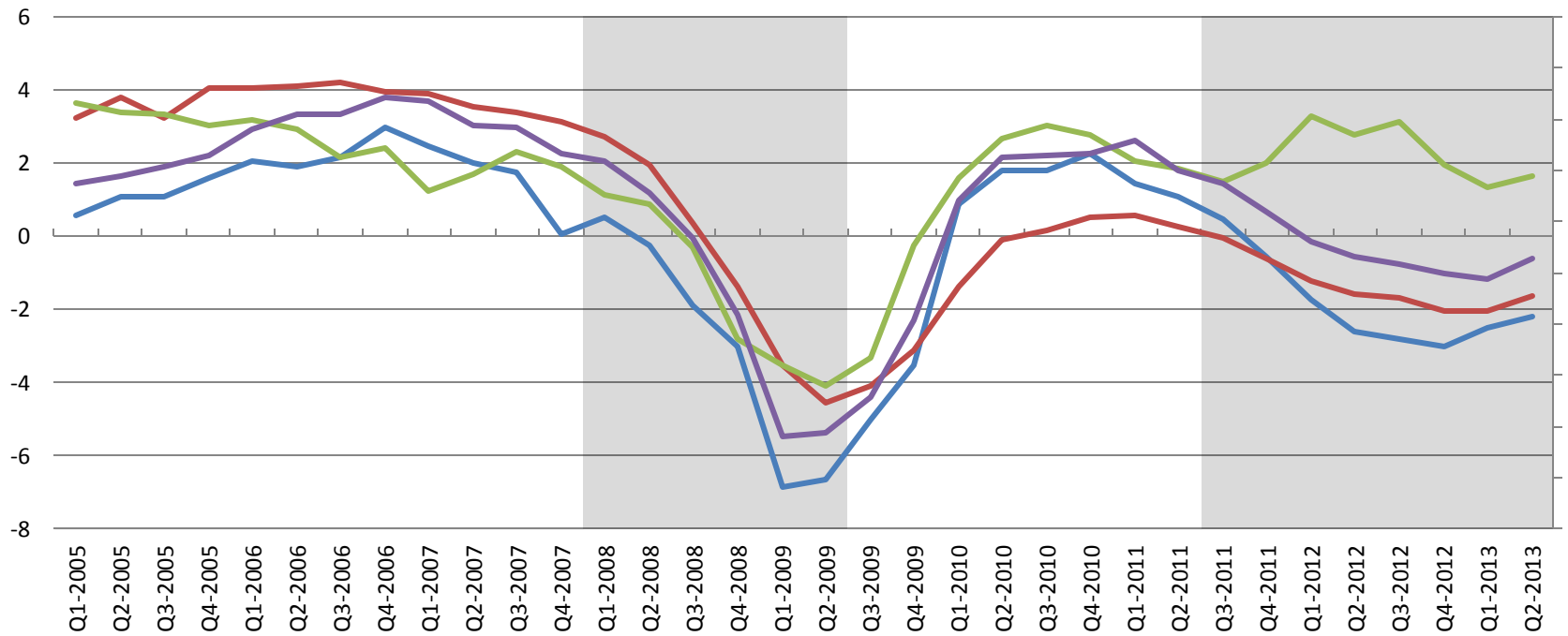
Conclusions from the data

- The recovery is under-way in the US and may have started in the Euro Area since the Spring
- EA recovery weaker than in the US
- Recent positive signs from Brazil and China (the IMF may have to flip its view in next WEO)

PART 2:THE EURO AREA: WHAT KIND OF ADJUSTMENT?

The Euro Area had a second crisis – not the US – it is now experiencing a weak recovery
 But what would be the long-run growth rate once out of the crisis?

YoY real GDP growth



Source: OECD

CEPR recessions

Italy

Spain

US

Euro Area

The adjustment

Characteristics of the macroeconomics adjustment

- Current account surplus – most countries
- Build up of domestic excess savings in the private sector
- Large sovereign debt in most countries
- Weak nominal GDP
- Stable bond market

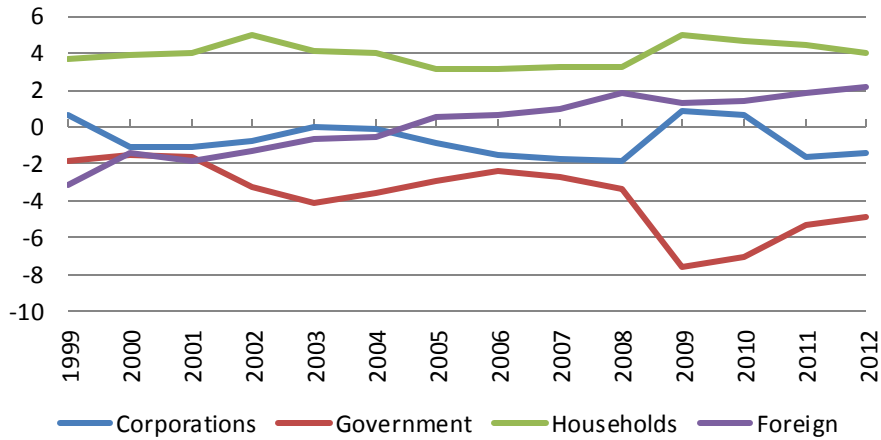
Japanese scenario?

Euro area countries have built capacity to absorb their debt

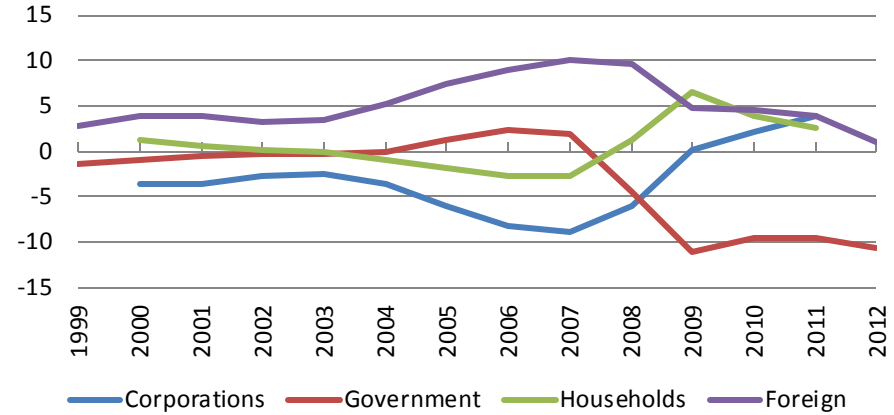
Financial repression generates weak growth at best

Sectoral Flows

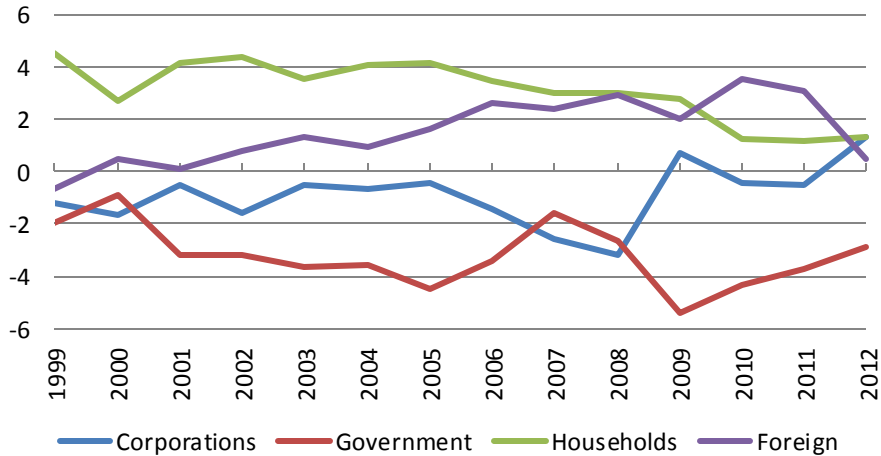
France



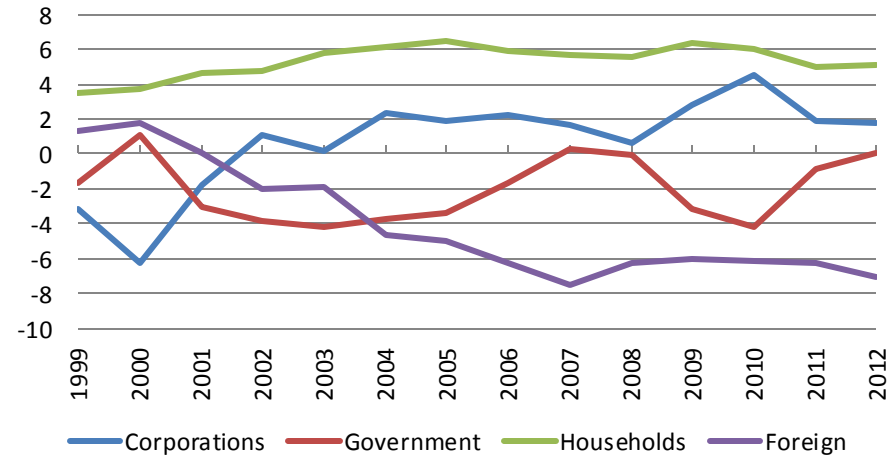
Spain



Italy



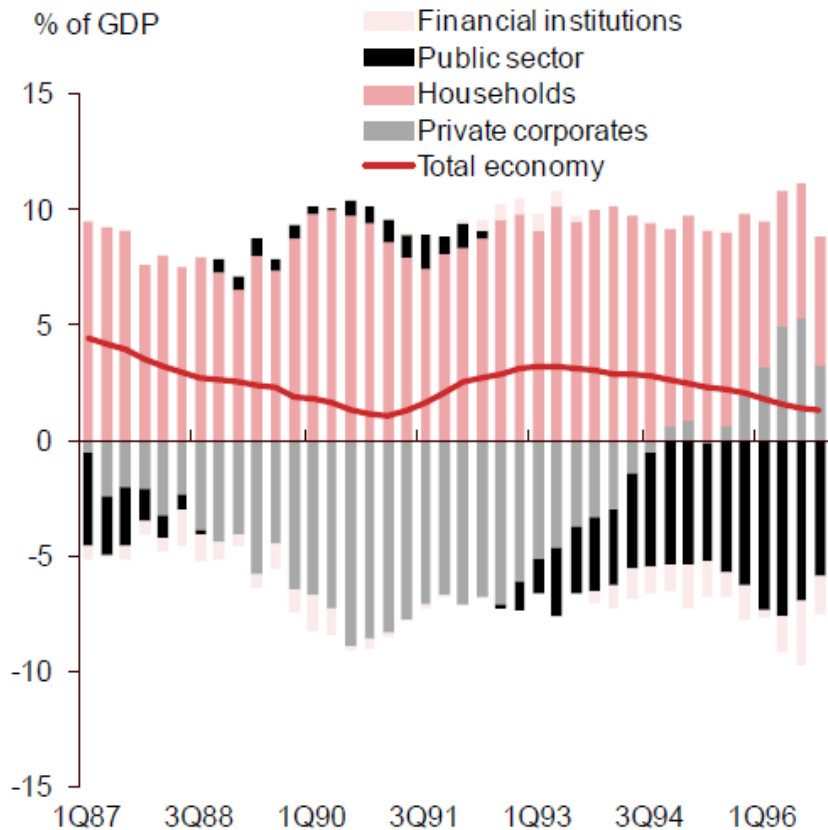
Germany



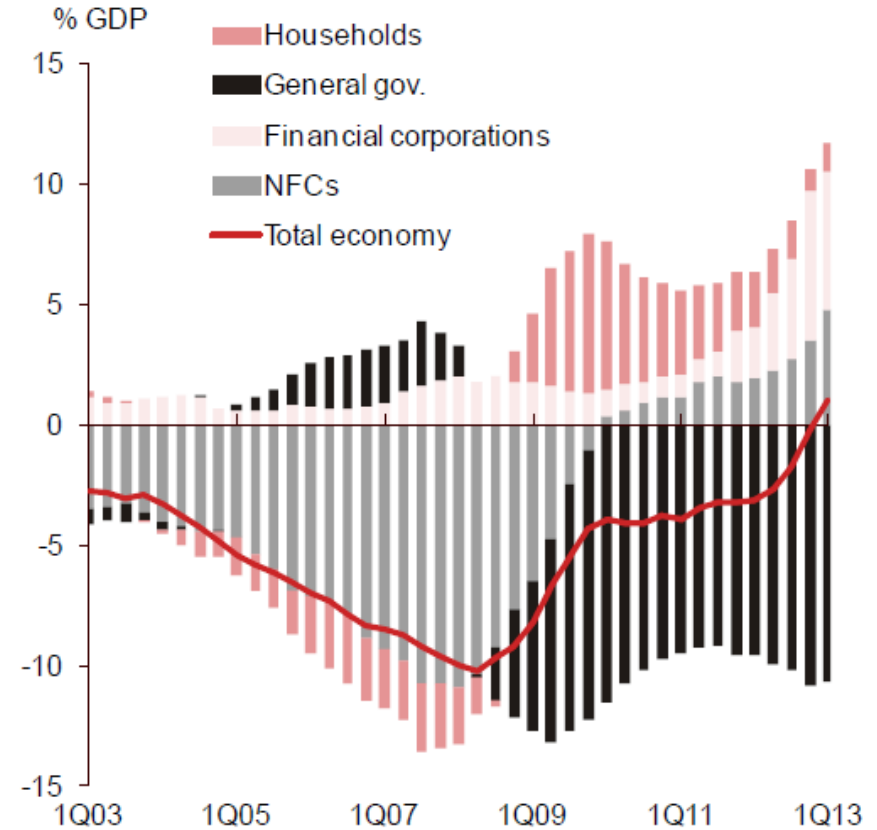
Spain and Japan

Corporate sector in Japan and Spain show very strong similarities

Japan



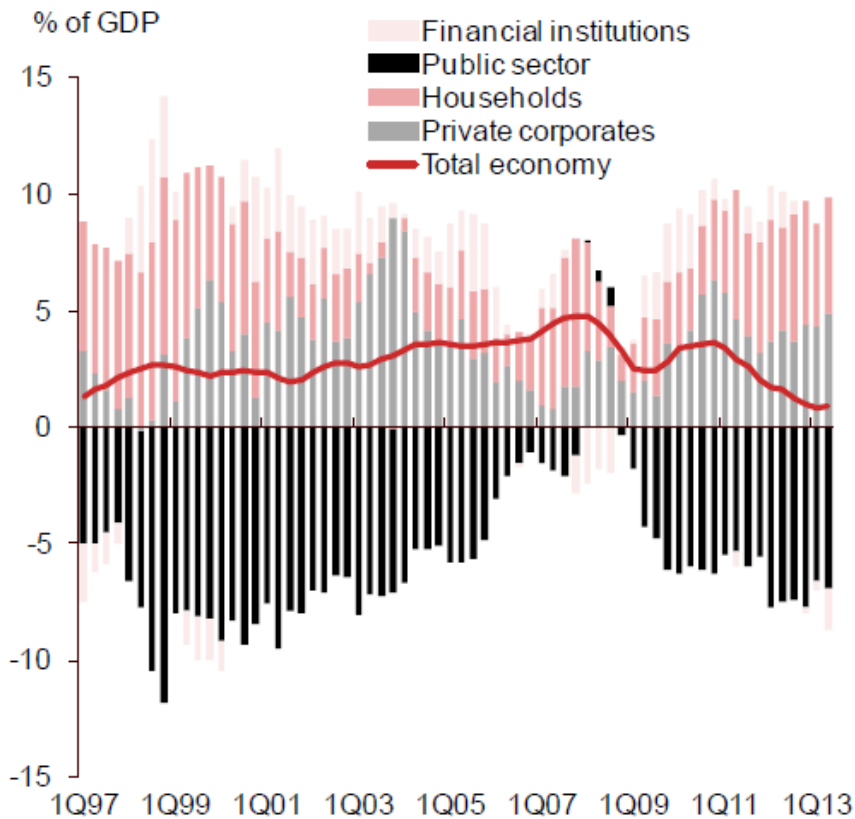
Spain



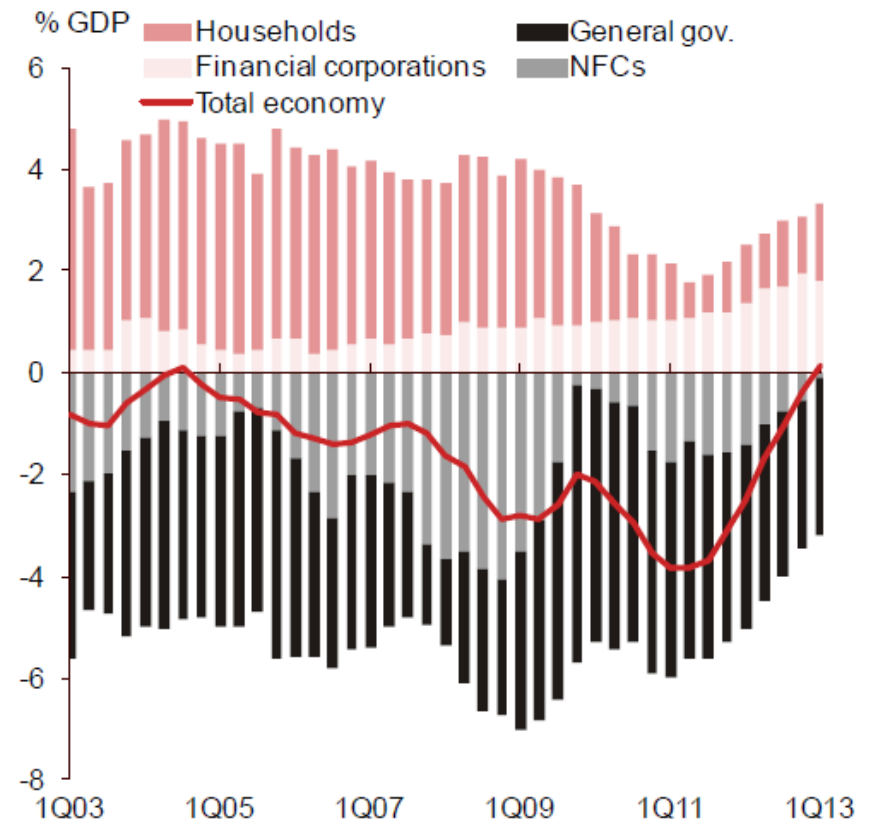
Italy and Japan

Italy has reached self financing situation thanks to turnaround in corporate behaviour (financial and non financial)

Japan



Italy



Source: ECB and Nomura Global Economics
 Note: Ratios are calculated as the 4q moving averages of sectoral data over 4q moving averages of nominal GDP.

Loans and the real economy

- Loans have been resilient in the first recession – not in the second (notwithstanding strong deposits and ECB injection of liquidity)

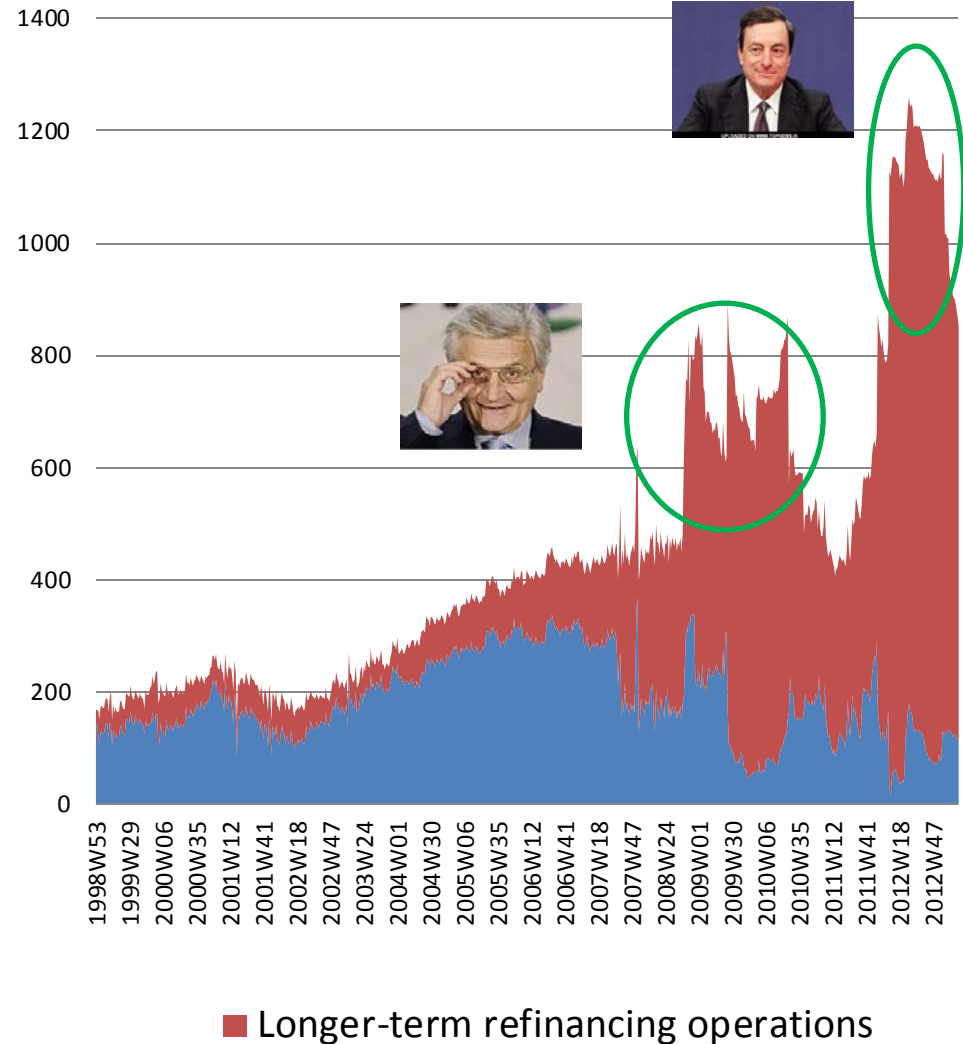
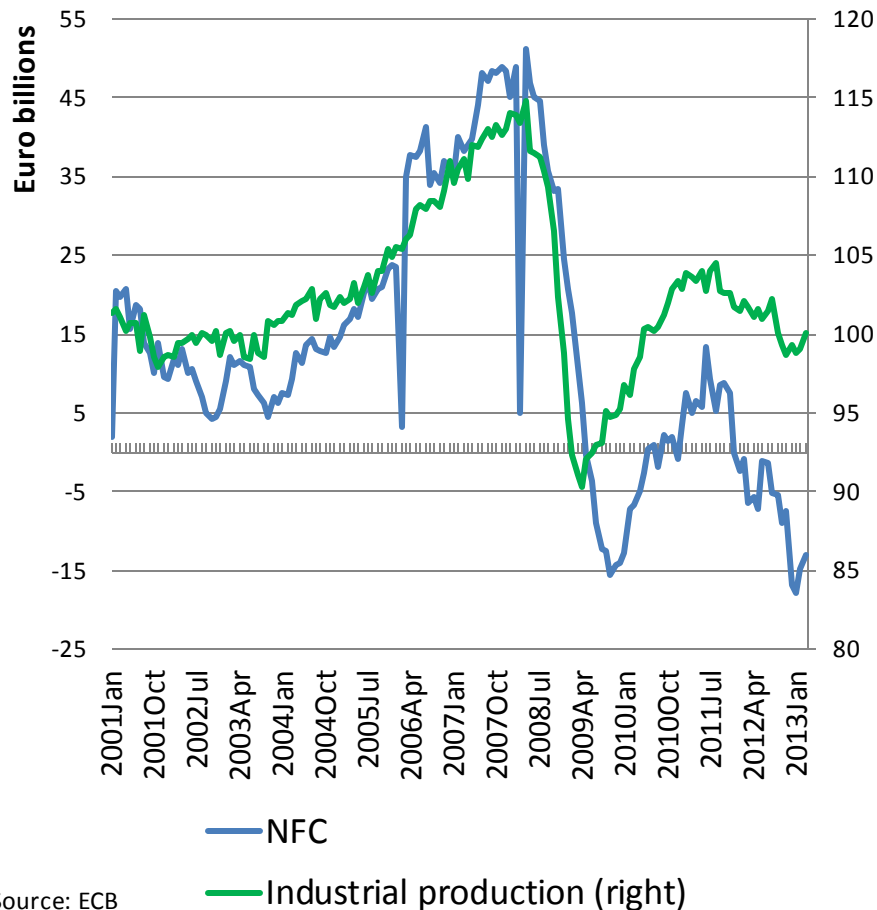
Why?

1. Banks have incentives to hold government bonds

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ECB LIQUIDITY PROVISION AND LOANS TO CORPORATE

Loan flows (6m MA) and industrial production



As shares (%) of banks' total assets

Loans - retail

	Germany	Spain	France	Italy
2007	30.04	58.28	23.04	37.81
2008	29.89	54.36	22.98	36.53
2009	31.16	52.51	23.26	36.24
2010	27.91	51.69	23.63	38.75
2011	27.91	47.53	23.19	37.50
2012	28.71	43.37	24.37	35.20
Jul 2013	30.53	43.69	23.46	34.85

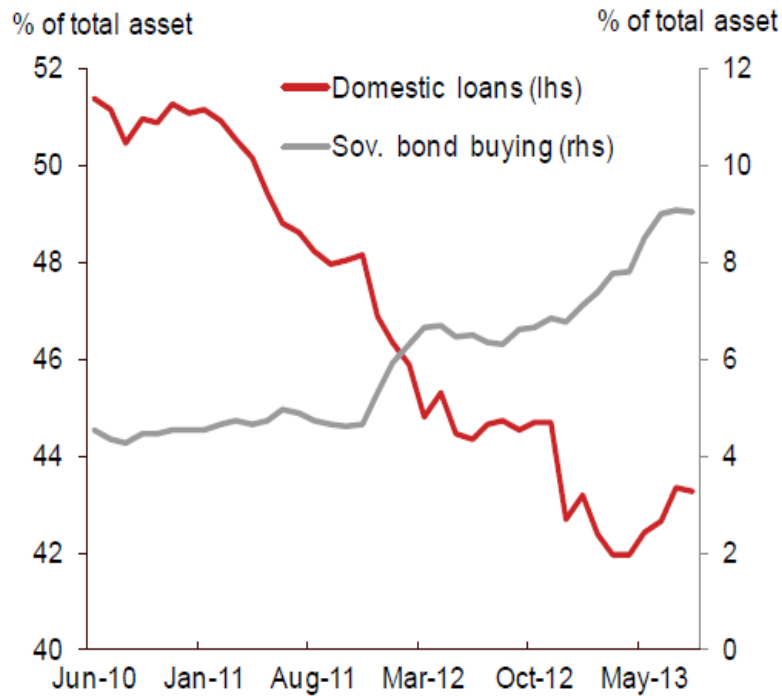
Gov. Bonds - domestic

	Germany	Spain	France	Italy
2007	1.91	2.55	2.11	4.84
2008	1.69	2.92	1.94	4.47
2009	2.15	4.41	2.09	5.29
2010	2.59	4.56	1.94	6.29
2011	2.40	5.33	1.82	6.02
2012	2.96	6.79	2.26	8.33
Jul 2013	3.12	9.09	2.10	10.12

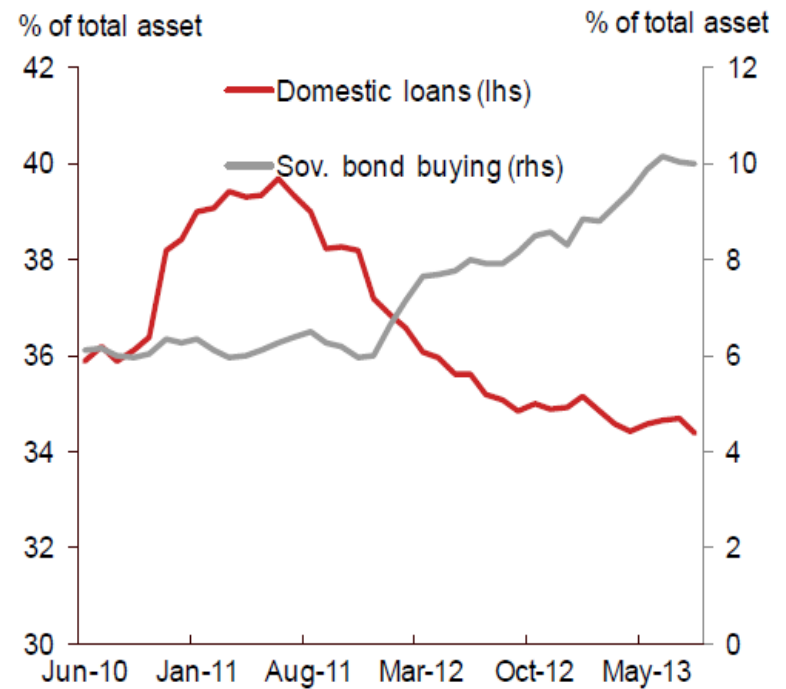
Asset compositions

Sovereign bond buying vs domestic loans (households and non financial corporates)

Spain



Italy



But also

2. Demand weak because of balance sheet adjustment (excess savings – see earlier slides)

Conclusions

- The EA area may have ceased to be a risk for the world economy
- But the adjustment points to financial repression and weak growth in the future
- Risks?
 - Banks (watch the AQR – many regulatory uncertainty and no agreement on the backstop)
 - Political risks