N°13 | DECEMBER 2013

SCENARIOECO

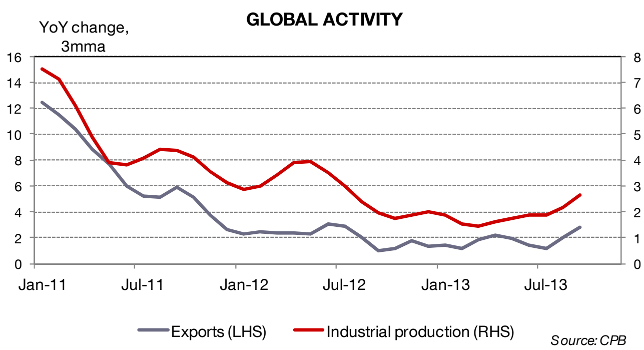
Société Générale
Economic studies department

DELEVERAGING AND NEW DEVELOPMENT MODELS

The recovery of the world economy is expected to strengthen in 2014-2015, thanks to ongoing expansionary monetary policies and less restrictive fiscal policies. However, this recovery would be a very slow one, as the global environment is still dominated by major problems that need to be overcome. On one hand, the long period of public and private deleveraging in developed countries is still far from over. On the other hand, emerging market economies are beginning a new step in their development process marked by structural challenges.

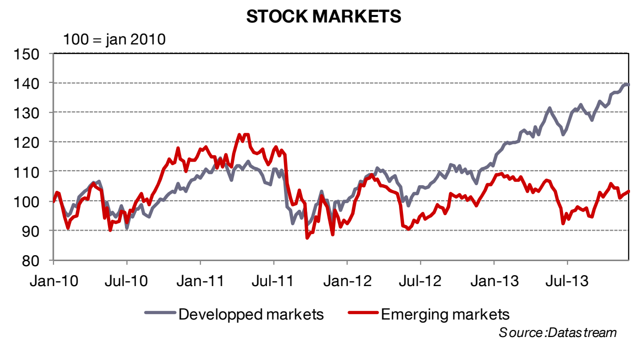
A SLIGHT IMPROVEMENT...

Economic indicators have been suggesting an improvement in global activity for the past few months. Still, it is worth noting that this slight improvement remains fragile. After a slowdown that began in 2011, exports and industrial production have been on a minor rebound since the summer of 2013. Business surveys also show that the outlook is looking up. This improvement has been joined by a wealth of favourable signs: fears of a rapid decrease in the Fed's asset-purchasing programme (known as QE3) have abated somewhat since September; Japan's new expansionist monetary policy has led to renewed confidence among Japanese firms, although for now this is mainly due to the impact of the weaker yen on exports; the euro area seems now to be out of recession, although there is no genuine recovery in sight; and in China indicators suggest that activity reaccelerated in the second half of the year.



The emerging world is benefiting from this slight improvement, which is reflected in accelerating exports. This is particularly true for Central and Eastern European countries, which are benefiting from the stabilisation of activity in the Euro area and from a minor shift in their exports towards other emerging markets. Emerging Asia is being bolstered by the renewed vitality in Chinese and Japanese demand. In contrast, some major emerging nations like Brazil, Russia, India, and Indonesia continue to post disappointing figures.

Financial markets are reflecting this impression of a global turnaround with a sustained increase in stock market prices in developing countries. However, in emerging countries, market perception remains mitigated, owing to doubts about the sustainability of growth models in some countries, and in others to signs of financial fragility.



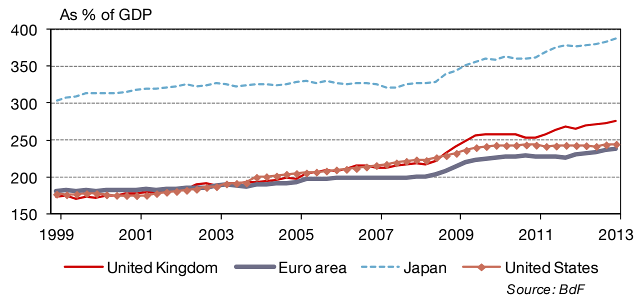
...BUT RISKS REMAIN

The economic turnaround in the United States, United Kingdom and Japan seems fragile, as it has not been accompanied by a real recovery in business investment. Instead, activity has mainly been spurred by household spending and inventory rebuilding. This is paradoxical, as the financial situation of companies is relatively healthy and credit conditions remain still cheap. Furthermore, this sort of recovery is highly vulnerable to the medium- and long-term rise in interest rates that an exit from quantitative monetary policies will sooner or later entail.

In the euro area, it is too soon to talk about an actual recovery rather than a mere end to the recession: budget cuts and private sector deleveraging, in the context of historically high unemployment, will continue to inhibit chances for a turnaround.

In this context, the recovery of activity in the advanced economies is expected to remain limited, in an environment where long-term interest rates are looking up, albeit from unusually low levels. This combination of weak growth, low inflation, and rising long term interest rates will complicate and extend the deleveraging process that developed countries have been undergoing for several years.

DEBT RATIO OF NON FINANCIAL PUBLIC AND PRIVATE SECTORS

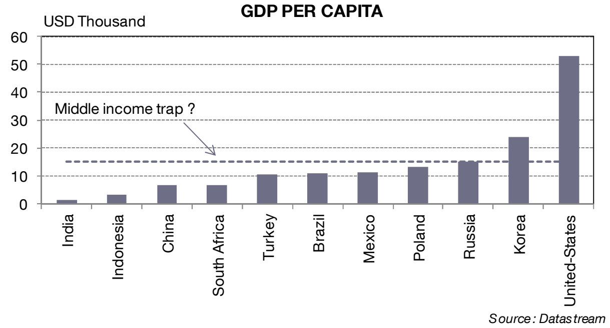


EMERGING MARKET ECONOMIES: LOOKING FOR A NEW BREATH

Emerging market economies already went through a deleveraging phase several years ago. It began in the late '90s, as a result of financial and/or sovereign debt crises. It was followed by several years of strong growth, spurred by the combination of multiple factors: the increase in the price of commodities (which many of these countries export), the rise of China on the global scene, more favourable terms of trade and abundant global liquidity. However, all of these factors, which caused what may be called a "won decade", are currently weakening or receding.

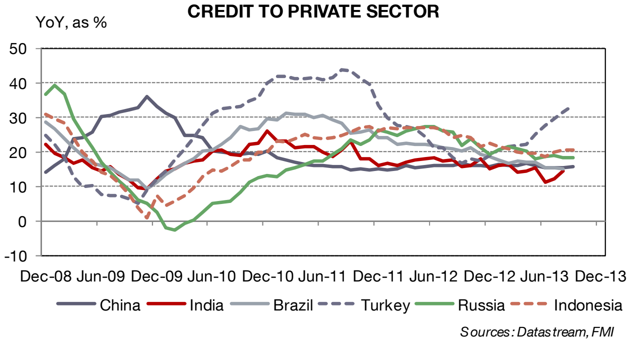
The question now is whether internal drivers of growth can pick up the slack. Additionally, the "BRIC" nations run the risk of falling into what is called the middle-income trap, meaning that after achieving success in the past, they could remain "stuck" at their current level of development. In light of these challenges, they will need to revise their development model and address their slowing growth. This would be the case no later than 2014-15. Even so, this weaker growth is still expected to be greater overall than growth in developed countries, due to still strong catch-up potential, ongoing investments in infrastructure, and (in some emerging countries) still-favourable demographics.

GDP PER CAPITA



A related issue is what impact the slowdown in emerging economies will have on their banking systems. For several years, bank credit in these countries has grown considerably. The clearest example is that of China, where funding for businesses and local governments has been booming since 2009. This is also true in Brazil, Turkey, Indonesia and Russia, where consumer credit has been a concern for local regulators. A sustained decline in growth would damage bank balance sheets. At this stage, this is not likely to raise financial stability problems for these countries, but it might exacerbate the economic slowdown by restricting available credit.

CREDIT TO PRIVATE SECTOR



As advanced economies deal with issues related to the gradual exit from unconventional monetary policies, many emerging economies are nearing the end of a monetary tightening cycle. The tightening had started in some countries due to sustained activity that was beginning to run up against bottlenecks. It accelerated during the summer due to reversals in capital inflows caused by fears of a sudden exit from QE3 in the United States. Over the last few years, the domestic demand dynamics has resulted in deteriorating trade balances and/or inflationary pressures. More modest growth should at least partially correct these imbalances.

MACROECONOMIC FORECASTS

Real GDP (growth rate, as %)[1]	2011	2012	2013 (f)	2014 (f)	2015 (f)	Share of world GDP 2012 (As %) Purchasing power parities[2]	Share of world GDP 2012 (As %) Current prices rates	GDP - 2012 USDbn Current prices rates
Industrialised countries	**1.6**	**1.4**	**1.1**	**1.8**	**2.1**	**48.6**	**63.0**	**40,766**
United States	1.8	2.8	1.7	2.5	2.9	20.3	22.5	15,658
Japan	-0.4	1.4	1.6	1.5	1.0	5.9	8.3	5,564
Euro area	1.8	-0.6	-0.4	0.7	1.3	14.6	18.2	12,244
Germany	3.4	0.9	0.5	1.5	1.7	4.0	5.0	3,443
France	2.0	0.0	0.2	0.6	1.2	2.9	3.9	2,620
Italy	0.6	-2.6	-2.0	0.0	0.8	2.4	3.1	2,015
Spain	0.1	-1.6	-1.3	0.3	0.9	1.8	2.1	1,364
United Kingdom	1.1	0.1	1.3	1.8	2.0	3.0	3.5	2,326
Emerging countries	**5.9**	**4.5**	**4.3**	**4.8**	**5.3**	**51.4**	**37.0**	**25,749**
Asia	7.2	5.8	5.9	6.1	6.3	28.0	17.1	12,929
China	9.3	7.7	7.6	7.5	7.3	13.6	8.9	6,992
India	6.3	3.2	4.3	5.0	6.0	5.6	2.4	1,785
Africa	4.5	4.2	4.0	4.5	4.8	2.5	1.7	1,197
Latin America	4.3	2.7	2.6	2.9	3.3	8.5	7.1	5,090
Brazil	2.7	1.0	2.2	2.4	2.5	2.9	3.2	2,227
Eastern Europe (incl. Turkey, ex. Russia)	5.3	1.5	2.2	3.2	4.1	4.7	3.5	2,469
Russia	4.3	3.4	1.5	2.0	2.0	3.0	2.3	1,644
Middle East	3.2	4.6	2.8	4.2	4.8	4.6	3.4	2,420
World - Purchasing power parities ponderation	**3.8**	**3.0**	**2.8**	**3.5**	**3.8**	**100**		
World - Current prices rates ponderation	**3.1**	**2.5**	**2.3**	**2.9**	**3.3**		**100**	**66,516**
Oil price (Brent USD/Barrel)	**80**	**112**	**108**	**100**	**97**			

Consumer prices index (growth rate, as %)	2011	2012	2013 (f)	2014 (f)	2015 (f)
United States	3.1	2.1	1.5	2.0	2.2
Japan (CPI national)	-0.3	0.0	0.3	2.6	1.5
Euro area	2.7	2.5	1.3	1.3	1.5
Germany (HICP)	2.1	2.0	1.6	1.6	1.6
France (CPI)	2.1	2.0	0.9	1.1	1.5
Italy (HICP)	2.9	3.3	1.3	1.1	1.5
Spain (HICP)	3.2	2.4	1.4	1.1	1.2
United Kingdom (HICP)	4.5	2.8	2.6	2.5	2.8

[1] The annual numbers are seasonnaly and working-day adjusted and hence may differ from the basis used for official projections.

[2] Purchasing Power Parity (PPP) is the monetary exchange rate that equalises the cost of a standardised basket of goods between different countries. The GDP weighting of different countries as a share of world GDP expressed in PPP is based on the latest estimates by the World Bank

	16/12/2013	Jun 2014	Dec 2014	Dec 2015	2013 (f)	2014 (f)	2015 (f)
Interest rates							
United States							
Fed Funds target rate	0.25	0.25	0.25	1.00	0.25	0.25	0.75
10 year Gvt Bonds	2.9	3.3	3.8	4.3	2.4	3.3	4.1
Japan							
Intervention rate	0.07	0.10	0.10	0.10	0.10	0.10	0.10
10 year Gvt Bonds	0.7	0.8	1.0	1.2	0.7	0.8	1.2
United Kingdom							
Bank rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
10 year Gvt Bonds	2.9	3.3	3.8	4.3	2.4	3.3	4.1
Euro area							
Refinancing rate	0.25	0.25	0.25	0.50	0.55	0.25	0.35
10 year Gvt Bonds							
Germany	1.8	2.0	2.4	3.0	1.6	2.1	2.7
France	2.2	2.5	2.9	3.5	2.2	2.6	3.2
Italy	4.0	4.5	4.8	4.5	4.3	4.6	4.6
Spain	4.1	4.8	5.1	4.5	4.6	4.9	4.8
Exchange rates							
EUR / USD	1.38	1.30	1.30	1.30	1.32	1.30	1.30
EUR / GBP	0.84	0.85	0.85	0.85	0.85	0.85	0.85
EUR / JPY	142	137	137	137	129	136	137
GBP / USD	1.63	1.53	1.53	1.53	1.56	1.53	1.53
USD / JPY	103	105	105	105	97	105	105

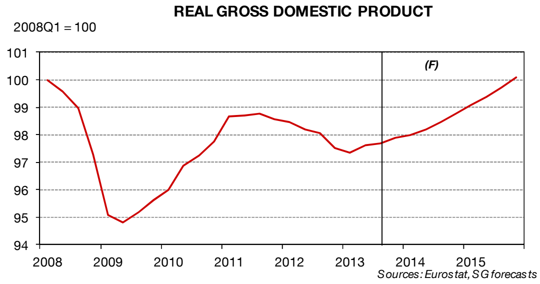
EURO AREA: THE RECESSION ENDS, BUT STILL NO RECOVERY

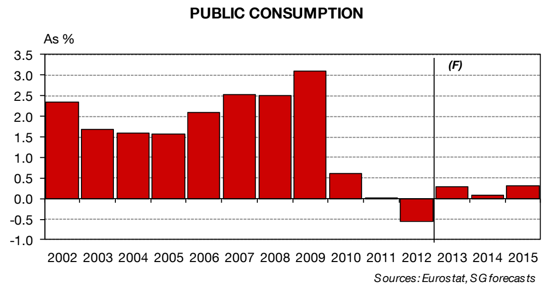
After two years of recession, economic activity in the euro area is stabilizing. However, we do not expect a true recovery, as growth remains hampered by continued deleveraging in both the public and private sectors. Real GDP is expected to increase by 0.7% in 2014 and 1.5% in 2015, just enough to stabilise the unemployment rate by the end of the period.

After six straight quarters of economic contraction, the economic pick-up initiated in Q2 was confirmed in Q3. Growth was admittedly very weak (0.1% in Q3, following 0.3% in Q2), but this was partly due to exceptional factors that boosted activity in Q2 and then hindered it in Q3.

But it appears that the end of the recession is not the same thing as a true recovery: growth is expected to remain limited and will not lead to a significant improvement in the labour market. Indeed the necessary adjustment of public finances, combined in some cases with a need for private-sector deleveraging, is still a pressing concern. In addition, in some countries, particularly Spain and Italy, financing conditions for the corporate sector are expected to ease up only slowly and should therefore remain restrictive.

Therefore the upturn in real GDP should remain limited to 0.7% in 2014 and 1.2% in 2015. At the end of 2015, economic output should only be back to pre-crisis levels, which would mean almost a decade of lost growth. In addition, the recovery would barely be enough to stabilise unemployment at historically high levels, which would negatively impact consumption, already hampered by austerity measures. The weak recovery and overcapacities in the manufacturing sector would not be conducive to a significant rebound in investment. Nevertheless, the gradual acceleration of the global economy would help exports.





As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**1.8**	**-0.6**	**-0.4**	**0.7**	**1.3**
Household consumption	0.4	-1.4	-0.5	0.6	1.0
Total investment	1.9	-3.9	-3.2	1.2	2.6
Exports	6.9	2.7	1.2	4.2	4.5
Imports	4.9	-0.8	0.1	4.3	4.5
Contribution of inventories to growth	0.3	-0.5	-0.1	0.0	0.0
Households					
Purchasing power of disposable income	-0.3	-1.7	-0.7	0.4	0.5
Unemployment rate	10.2	11.4	12.1	12.4	12.4
Saving rate	13.3	13.0	12.9	12.7	12.2
Inflation rate	**2.7**	**2.5**	**1.3**	**1.3**	**1.5**
Public sector balance (as % of GDP)	**-4.2**	**-3.7**	**-3.1**	**-2.5**	**-2.0**
Current account balance (as % of GDP)	**0.1**	**1.4**	**2.1**	**2.1**	**2.2**

GERMANY: DRIVEN BY DOMESTIC DEMAND

After a strong rebound in Q2, growth evened out in Q3, confirming the gradual recovery scenario. In 2014, the employment would remain buoyant, supporting consumption and housing spending. Business investment would continue to recover, despite uncertain foreign demand. In 2015, exports would gather further momentum, thereby stimulating economic activity.

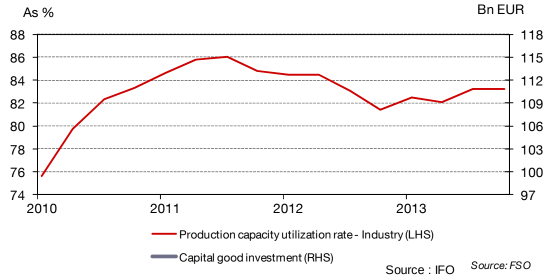
After a catch-up effect in Q2 due to a particularly harsh winter, Q3 was marked by a sharp slowdown in private consumption. However, investment remained strong thanks to the construction sector. In 2014-15, domestic demand would be the main driver of growth, with stronger exports just barely offsetting solid imports.

Employment would continue to increase, leading to a further reduction in the unemployment rate and in precarious jobs. In such an environment, wages would continue to increase significantly. Given low inflation, purchasing power would remain strong, supporting consumer spending and housing investment.

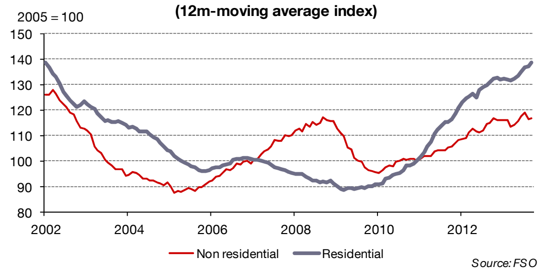
External conditions remain uncertain. Demand from EU partners is expected to remain weak over the long term, while demand from China and the United States would recover only gradually. Investment in capital goods is expected to pick up, as suggested by business surveys.

The implementation of the coalition agreement between the CDU/CSU and the SPD is unlikely to change the outlook for 2014-15. For one thing, the introduction of a minimum wage at 8.50EUR will not occur until 2015, with the transition period lasting until 2017. In addition, the additional public spending planned amounts to less than 0.3% of GDP per year over four years, and the budget balance target for 2015 is maintained.

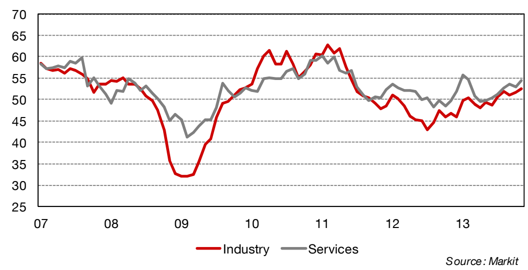
PRODUCTION CAPACITY UTILIZATION RATE *VERSUS* CAPITAL GOOD INVESTMENT



CONSTRUCTION PERMITS - NEW ORDERS (12m-moving average index)



PURCHASING MANAGER INDEX



As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**3.4**	**0.9**	**0.5**	**1.5**	**1.7**
Household consumption	2.3	0.7	1.0	1.0	1.1
Capital goods investment	6.0	-3.3	-1.8	2.9	3.6
Construction investment	8.1	-0.5	-0.2	4.9	4.4
Exports	8.1	3.8	0.5	4.7	5.3
Imports	7.5	1.8	1.2	5.4	5.8
Contribution of inventories to growth	0.1	-0.5	0.2	0.0	0.0
Households					
Purchasing power of disposable income	1.8	0.3	0.6	0.9	0.9
Unemployment rate	7.1	6.8	6.8	6.7	6.5
Saving rate	10.4	10.3	9.8	9.8	9.6
Inflation rate	**2.1**	**2.0**	**1.6**	**1.6**	**1.6**
Public sector balance (as % of GDP)	**-0.8**	**0.1**	**0.0**	**0.2**	**0.2**
Current account balance (as % of GDP)	**6.6**	**7.0**	**8.1**	**6.9**	**6.7**

FRANCE: SPUTTERING RECOVERY

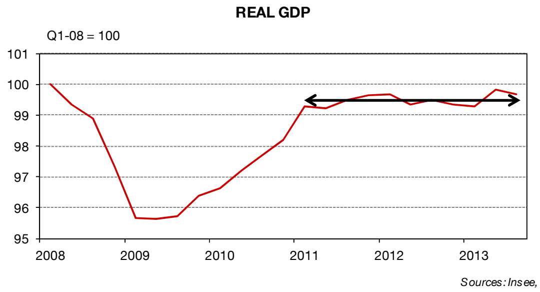
The pick-up in French economic activity stumbled in the third quarter. However, this is due in part to unusual circumstances that boosted growth in the second quarter and then slowed it down in the third. Excluding temporary factors, the French economy remains on a slow growth trend that would hardly gain momentum in 2014 and 2015, notably because the adjustments required to restore government and business financial positions will continue to weigh on economic activity.

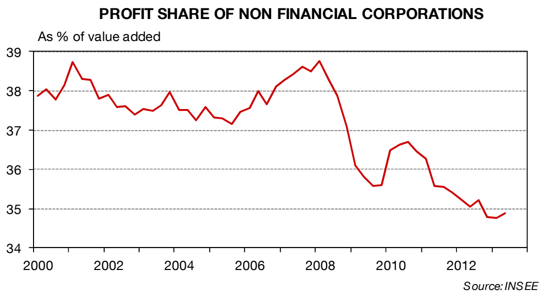
The French economy stalled in the third quarter of 2013 (-0.1%) after rebounding in the preceding quarter (+0.5%). Nevertheless, this should be put in perspective: temporary conditions boosted activity in the second quarter and slowed it down in the third. Household consumption, which had been boosted in Q2 by energy spending due to unseasonably cold temperatures, slowed down in Q3.

Beyond these quarterly fluctuations, the underlying economic trend remains weak, with only very slightly positive GDP growth. This sluggishness would continue through 2014 and 2015, even if the slowly improving global economic environment and less restrictive fiscal policy make it possible for growth to accelerate very gradually.

The still-distressed labour market would weigh on the purchasing power of households and lead them to be cautious. At the same time, deteriorated financial situation of the corporate sector, low capacity utilisation and the uncertainty surrounding the economic outlook would limit any recovery in business investment.

All in all, with a growth rate of 0.6% in 2014 and 1.2% in 2015, France is not yet at the point of experiencing a true recovery. In particular, the unemployment rate would not exhibit a real decline beyond the effects of subsidised employment schemes on non-market employment.





As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**2.0**	**0.0**	**0.2**	**0.6**	**1.2**
Household consumption	0.5	-0.4	0.4	1.1	1.6
Corporate investment	3.1	-1.9	-2.1	0.1	3.3
Household investment	2.3	-0.4	-3.9	-1.0	1.8
Exports	5.6	2.5	0.7	4.1	4.1
Imports	5.3	-0.9	1.1	3.8	3.9
Contribution of inventories to growth	1.1	-0.8	0.2	0.1	0.0
Households					
Purchasing power of disposable income	0.7	-0.9	0.4	0.9	1.6
Unemployment rate	9.2	9.8	10.5	10.8	10.8
Saving rate	16.06	15.64	15.66	15.51	15.53
Inflation rate	**2.1**	**2.0**	**0.9**	**1.1**	**1.5**
Public sector balance (as % of GDP)	**-5.3**	**-4.8**	**-4.1**	**-3.7**	**-2.9**
Current account balance (as % of GDP)	**-1.8**	**-2.2**	**-1.8**	**-1.5**	**-1.6**

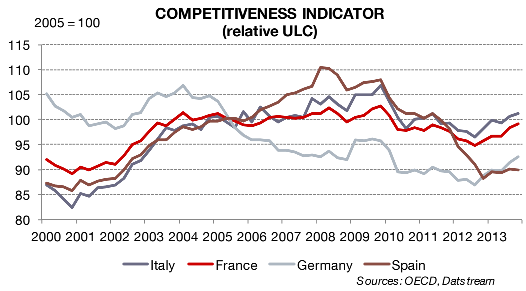
ITALY: DELAYED IGNITION

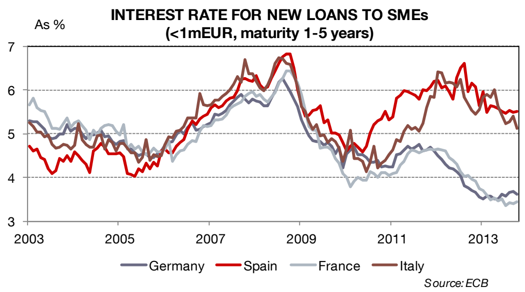
Italian economic activity remains weak, and the slow pace of structural reforms seems to be delaying the expected rebound in exports. Despite substantial efforts, budgetary consolidation is still insufficient, which could lead the European Commission to ask for additional corrective measures. A possible stabilisation of the political situation would accelerate the pace of reform.

Real GDP was flat in Q3 (in Q/Q terms) after eight consecutive quarters of contraction. Reasons for this persistent weakness include the ongoing contraction of domestic demand (still affected by the decline in credit to the business sector) and the disappointing rebound in exports, which is less forceful than in other peripheral countries (particularly Spain). This is probably due to the slow pace of structural reforms (labour market and taxation), which has resulted in a reduced ability to restore competitiveness compared to countries in the core euro area. In all, real GDP would only stabilise in 2014, before posting weak growth in 2015.

Due to the postponement or cancellation of some tax hikes (VAT, property tax), the budget deficit for 2013 should be slightly higher than the initial official projection of 3% of GDP. Coupled with a 2014 budget that is not particularly ambitious in terms of spending cuts, this slight slippage could spark new negotiations with the European Commission. These negotiations, if unsuccessful, could end in the launch of a new Excessive Deficit Procedure and result in additional austerity measures that could stifle an already weak economic recovery.

This delay in the structural and budgetary reform programme is primarily explained by the fragility of the government coalition. However, the right-wing PdL's split between moderates (still in the coalition) and Silvio Berlusconi's supporters (who went into opposition) could paradoxically clarify the political situation. Moreover, electoral law reform, a prerequisite for more stable governments, is under consideration and could take effect before the next general elections in 2015.





As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**0.6**	**-2.6**	**-2.0**	**0.0**	**0.8**
Household consumption	-0.3	-4.2	-2.5	-0.3	0.6
Capital goods investment	0.6	-10.0	-5.4	0.7	1.4
Construction investment	-3.3	-6.5	-6.7	-0.2	1.1
Exports	6.9	1.9	0.0	3.1	3.9
Imports	1.4	-7.5	-3.2	2.3	3.3
Contribution of inventories to growth	1.4	2.8	0.9	0.3	0.9
Households					
Purchasing power of disposable income	-0.6	-4.7	-1.7	-0.5	0.8
Unemployment rate	8.4	10.7	12.3	12.8	12.8
Savings rate	11.8	11.5	12.2	12.0	12.2
Inflation rate	**2.9**	**3.3**	**1.3**	**1.1**	**1.5**
Public sector balance (as % of GDP)	**-3.9**	**-3.0**	**-2.9**	**-2.9**	**-2.5**
Current account balance (as % of GDP)	**-3.1**	**-0.4**	**0.6**	**1.1**	**1.8**

SOCIETE GENERALE

SPAIN: STILL A LONG WAY TO GO

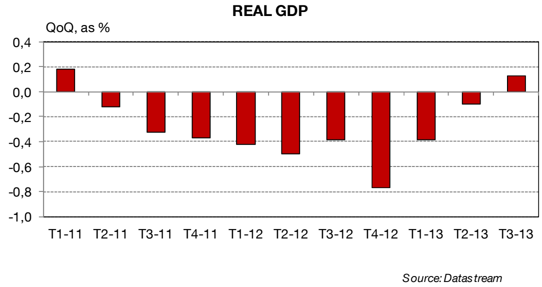
The Spanish economy technically exited recession in Q3, but growth is expected to be very modest over the course of the next two years. The adjustment of public finances, external accounts and the banking sector is real, but much still remains to be done to consolidate the economy on a long-term basis.

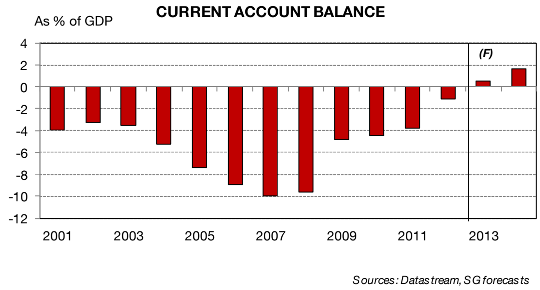
After nine quarters of contraction, activity stabilised in Q3, particularly on the back of vigorous exports to countries outside of the euro area. On the other hand, domestic demand continues to contract (albeit at a slower pace), hampered by the persistent credit crunch in the private sector. These trends would remain over the course of the next two years, and growth would therefore be very modest.

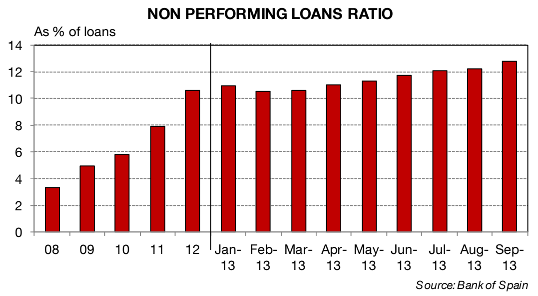
After hovering around 10% of GDP between 2008 and 2012, the 2013 public deficit is expected to be close to the initial target of 6.5%, in particular due to the reduced cost of bank recapitalisations. The government forecasts the deficit to fall to 5.8% of GDP in 2014, but based on optimistic macroeconomic assumptions (especially on growth and employment).

The country will post a slight current account surplus for 2013 (the first since 1987), thanks to both strong exports and weak imports. Foreign investment inflows rebounded significantly in 2013, illustrating the positive effects of reforms in terms of competitiveness. However, due to the amount of previously accumulated foreign liabilities, larger current account surpluses will have to be produced over a longer period of time before the net international investment position (92% of GDP in 2012) recovers.

Troika's plan for restructuring the banking sector is proceeding smoothly and will end in early 2014. Banks have strengthened their capitalisation ratios, in particular thanks to significant public funds (6% of total GDP). However the quality of bank assets continues to deteriorate, affected by high unemployment, the still ongoing resolution of the real estate bubble and the impact of the prolonged recession on small- and medium-sized businesses.







As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**0.1**	**-1.6**	**-1.3**	**0.3**	**0.9**
Household consumption	-1.2	-2.8	-2.5	0.2	0.3
Total investment	-5.4	-7.0	-6.0	-1.2	0.8
Exports	7.6	2.1	5.5	6.0	4.1
Imports	-0.1	-5.7	0.5	4.4	2.3
Contribution of inventories to growth	2.1	2.5	1.6	0.7	0.7
Households					
Purchasing power of disposable income	-2.5	-5.2	-3.0	0.4	0.6
Unemployment rate	21.6	25.0	26.5	27.1	27.2
Savings rate	12.7	10.4	10.1	10.3	10.6
Inflation rate	**3.2**	**2.4**	**1.4**	**1.1**	**1.2**
Public sector balance (as % of GDP)	**-9.6**	**-10.7**	**-7.1**	**-5.5**	**-4.5**
Current account balance (as % of GDP)	**-3.8**	**-1.1**	**0.5**	**1.6**	**2.4**

UNITED-KINGDOM: EASIER CREDIT, BUT ONLY TO HOUSEHOLDS

The rebound in the UK economy that began in 2013 would continue in 2014 and 2015. However growth would hardly accelerate. Nevertheless, the economy would not truly accelerate. In particular, the Bank of England's ultra-loose monetary policy would primarily affect mortgage lending — at the risk of inflating a new bubble — rather than loans to the corporate sector. Business investment, which remains 25% lower than its pre-crisis levels, would bounce back only slowly.

The UK economy has noticeably picked up speed since early 2013, reaching an annualized growth rate of over 3% in Q3. This upturn would continue in 2014-15, but at a more moderate pace. Indeed, fiscal adjustment in the public sector would weigh on demand. Business investment, which is struggling to bounce back, is expected to accelerate only gradually, chiefly hampered by a weak credit environment. Household consumption would moderate on a pace more in line with real income growth.

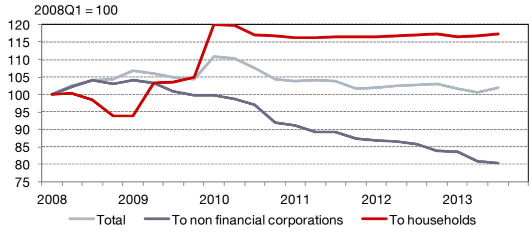
The Bank of England has pursued a very aggressive policy of quantitative easing in order to support the UK economy. As a result, the central bank's balance sheet has increased in size from less than 6% of GDP before the crisis to 25% of GDP in 2013; this expansion is even larger than the one implemented by the US Fed. However, this policy was just enough to stabilise bank loans to the private sector. This stability masks a continued decline in lending to businesses since 2009. In contrast, household credit is significantly higher than before the crisis. Furthermore, property prices have regained their pre-crisis levels, raising fears of a new housing bubble made possible by abundant cheap credit. This is why the Bank of England recently changed its Funding for Lending scheme, refocusing it to the business sector only.

Meanwhile, improvement in employment would remain gradual. The unemployment rate would not recede to 7% until the end of 2015. Consequently, the Bank of England is not expected to hike interest rates over the forecast horizon.

ILO UNEMPLOYMENT RATE

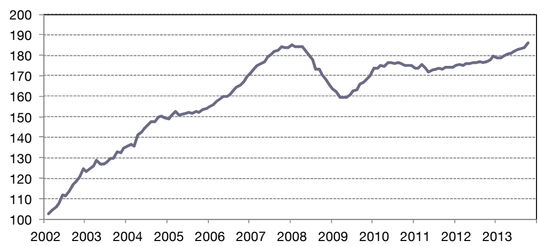
Source: ONS

AMOUNTS OUTSTANDING OF BANKS' LOANS TO NON BANKING PRIVATE SECTOR



Source: Bank of England

HOUSE PRICE INDEX



Source: ONS

As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**1.1**	**0.1**	**1.3**	**1.8**	**2.0**
Household consumption	-0.4	1.2	1.8	1.7	2.0
Non residential fixed investment	-1.3	2.6	-5.6	2.7	3.8
Residential investment	0.4	-2.5	5.7	6.1	6.1
Exports	4.5	1.0	1.3	3.7	3.8
Imports	0.3	3.1	1.9	3.0	3.0
Contribution of inventories to growth	0.5	-0.3	0.5	0.2	0.0
Households					
Purchasing power of disposable income	-1.2	1.6	0.2	1.4	1.2
Unemployment rate	8.1	8.0	7.6	7.4	7.1
Saving rate	6.7	6.8	5.4	5.2	4.3
Inflation rate (HICP)	**4.5**	**2.8**	**2.6**	**2.5**	**2.8**
Public sector balance (as % of GDP)	**-7.9**	**-6.2**	**-6.4**	**-5.5**	**-4.5**
Current account balance (as % of GDP)	**-1.5**	**-3.8**	**-3.7**	**-2.4**	**-2.1**

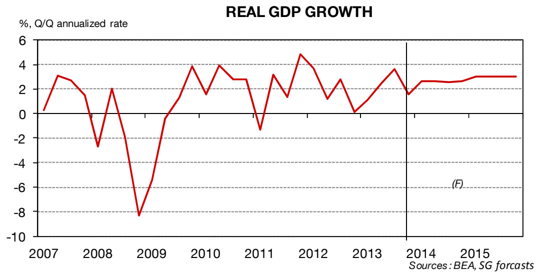
UNITED STATES: FED'S TAPERING IS NOT TIGHTENING

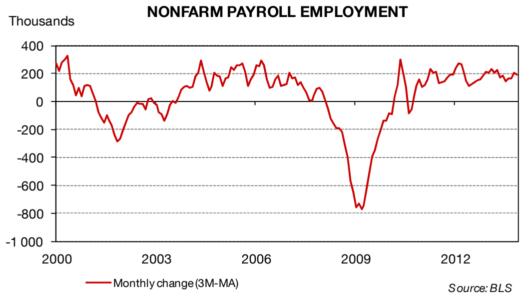
Economic activity and employment would continue to improve. The Federal Reserve is expected to gradually scale down its asset purchase program while remaining careful not to weaken the recovery. To this end, it is expected to reaffirm its intention not to raise its key interest rate too soon. We do not forecast an increase in the key rate before mid-2015.

The recent US Congress budget deal will further ease the severity of budget cuts in 2014-15. Meanwhile, households benefit from higher asset prices, particularly for housing. This should boost private consumption. However, the low household savings rate limits any sharp increase in consumption.

The improved outlook for demand — in an environment where businesses have healthy cash reserves — should bolster investment. At the same time, employment should continue to improve, especially in the private sector.

In 2014, the continued improvement in the labour market should allow the Federal Reserve to gradually scale down its asset purchases programme (currently USD 85bn per month, consisting of USD45bn in Treasury securities and USD 40bn in mortgage-backed securities). However, the FOMC will seek to avoid an excessive steep rise in long-term rates, which could jeopardize the still-fragile economic recovery. To this end, its forward guidance will need to convince markets that less quantitative easing is not the same thing as monetary tightening. As the unemployment rate (which fell to 7% in November) nears 6.5%, the challenge for the Fed will be to explain that this threshold is a necessary but not sufficient condition for raising its key rate.





As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**1.8**	**2.8**	**1.7**	**2.5**	**2.9**
Household consumption	2.5	2.2	1.9	2.4	2.6
Non residential fixed investment	7.6	7.3	2.6	5.6	6.6
Residential fixed investment	0.5	12.9	13.6	8.8	6.1
Exports	7.1	3.5	2.3	4.1	4.6
Imports	4.9	2.2	1.7	3.9	3.2
Contribution of inventories to growth	-0.2	0.2	0.1	0.1	0.0
Households					
Purchasing power of disposable income	2.4	2.0	0.8	2.3	2.5
Unemployment rate	8.9	8.1	7.5	7.1	6.8
Saving rate	5.7	5.6	4.6	4.5	4.4
Inflation rate	**3.1**	**2.1**	**1.5**	**2.0**	**2.2**
Public sector balance (as % of GDP)	**-10.7**	**-9.3**	**-6.4**	**-4.6**	**-3.9**
Current account balance (as % of GDP)	**-2.9**	**-2.7**	**-2.6**	**-2.8**	**-2.7**

JAPAN: LOSING STEAM

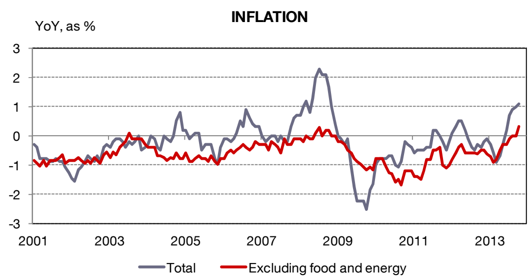
Since 2012, economic activity in Japan has been sustained by the reconstruction spending carried out in the wake of the disasters that hit the country, as well as by the stimulus plan and depreciation of the yen in 2013. In 2014-2015, the recovery would gradually lose steam: the impact of reconstruction would lessen, and consumption would be dented by higher taxes.

Economic growth in Japan was very dynamic in the first half of 2013, achieving an annualized rate of 4%. This was driven by consumption, exports and public investment. It nevertheless began to slow down in Q3 (+1.1% annualized), and this slower trend is expected to continue in 2014 and 2015.

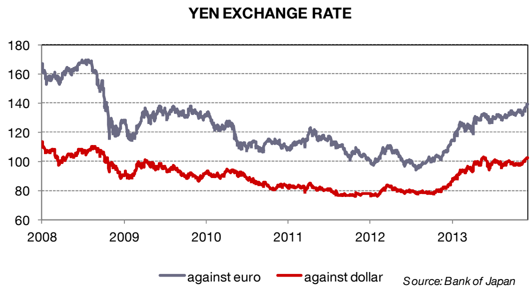
Indeed, after a period of budget stimulus, providing budgetary support for the economy, the government has announced a phase of consolidation. The planned increases in the consumption tax rates in 2014 and again in 2015 should temporarily push up consumer prices. In addition, investment in construction is expected to slow down following the reconstruction period that began after the disasters of 2011.

However, the extent of the slowdown would be limited by the continued strength of exports, bolstered by the gradual acceleration of global trade and the increased competitiveness resulting from the depreciation of the yen due to the Japanese central bank's highly aggressive monetary policy.

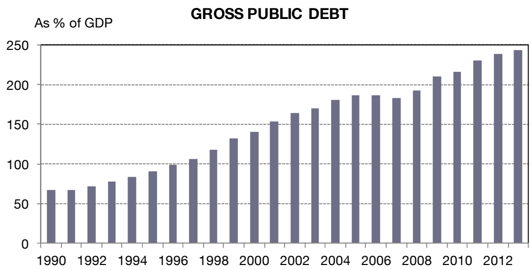
Beyond the fight against deflation, Japan's main challenge now lies in its ability to halt its public debt spiral. This requires additional fiscal consolidation, which would weigh on growth, combined with structural reforms to raise the potential growth rate of the economy. The key risk for Japan would be a sharp increase in bond yields, which would send the public debt in an unsustainable path.



Source: datastream



Source: Bank of Japan



Source: IMF

As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**-0.4**	**1.4**	**1.6**	**1.5**	**1.0**
Household consumption	0.3	2.1	1.9	0.9	0.8
Non residential fixed investment	4.1	3.6	-1.6	3.2	4.1
Residential investment	5.1	2.8	7.6	2.4	1.2
Exports	-0.4	-0.1	1.8	7.1	6.9
Imports	5.9	5.4	2.4	4.0	4.1
Contribution of inventories to growth	-0.2	0.1	-0.2	0.0	0.0
Households					
Purchasing power of disposable income	0.6	1.1	1.7	0.3	1.1
Unemployment rate	4.6	4.4	4.0	4.0	4.0
Saving rate	2.5	1.6	1.4	0.9	1.2
Inflation rate (CPI)	**-0.3**	**0.0**	**0.3**	**2.6**	**1.5**
Public sector balance (as % of GDP)	**-8.9**	**-9.5**	**-10.0**	**-8.5**	**-6.8**
Current account balance (as % of GDP)	**2.0**	**1.1**	**0.9**	**0.7**	**1.0**

CHINA: WHEN LESS IS BETTER

Real GDP growth is projected to remain sustained at 7.7% in 2013. It is expected to gradually ease to 7.5% and 7.3% in 2014 and 2015 due to weaker investment. Long-term proposed reforms in the Third Plenum are promising and would imply a transition towards a slower but a more balanced growth.

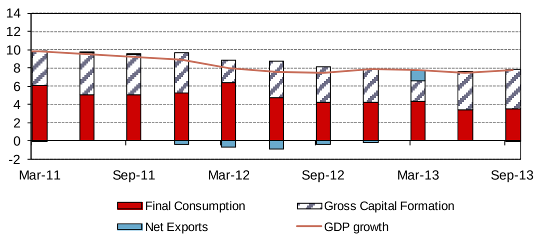
Real GDP growth picked up to 7.8% in Q3-13 led by investment. The latest batch of activity indicators suggests that the acceleration trend will remain in Q4. In October, industrial production and exports strengthened, fixed asset investment remained strong driven by manufacturing, retail sales hold up fairly well, and property prices continued to rise. Growth would remain sustained at 7.7% in 2013.

Inflation rose to an eight-month high of 3.2% YoY in October on higher food prices. Inflation is expected to average 2.9% in 2013, and to be limited at 3% in 2014-15 as activity would remain subdued. Expectations of further appreciation of the RMB (as reflected in strong capital inflows in Q3) could also dampen inflationary pressures.

Against this backdrop, economic growth is projected to gradually decline to 7.5% in 2014 and to 7.3% in 2015 mainly due to a significant slowdown in investment. The risk to the near-term economic outlook is a stronger than expected restriction in credit expansion as the economy is becoming more vulnerable: risky shadow banking activities, rising local government debt, and weakening corporate' sector balance sheets. However, a hard landing scenario is unlikely as the authorities would retain the ability to stimulate activity if needed.

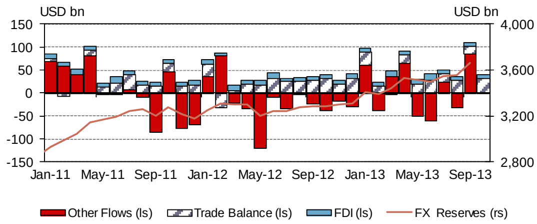
The Third Plenum of the 18th Party Congress was held early November. The decision stresses the "decisive" role that markets must play in resource allocation. It lays out a package of structural reforms in a wide range of areas (economics, political, social and judicial). It would imply the long-awaited rebalancing of the economic structure towards consumption and away from export and investment.

CONTRIBUTION TO GDP GROWTH (YTD)



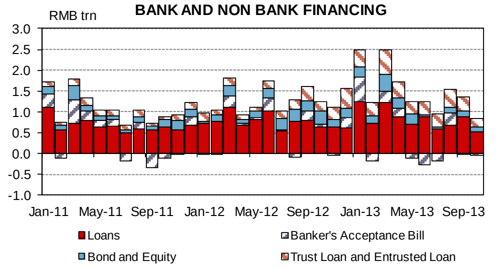
Sources : National Bureau of Statistics, SG

BALANCE OF PAYMENTS



Sources: Bloomberg, SG Computations

BANK AND NON BANK FINANCING



Source : CEIC

As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**9.3**	**7.7**	**7.6**	**7.5**	**7.3**
Consumption (contrib. to growth, pp)	5.3	5.3	4.1	4.0	4.0
Investment (contrib. to growth, pp)	4.1	4.6	3.5	3.4	3.3
External trade (contrib. to growth, pp)	-1.0	0.5	0.0	0.0	0.0
Inflation rate	**5.4**	**2.6**	**2.9**	**3.0**	**3.0**
Central Government Balance (as % of GDP)	**-1.3**	**-2.2**	**-2.5**	**-2.0**	**-1.5**
Central Government Debt (as % of GDP)	**28.7**	**26.1**	**22.9**	**20.9**	**19.3**
External Debt (as % of GDP)	**9.5**	**9.0**	**8.8**	**8.5**	**8.0**
Current Account Balance (as % of GDP)	**1.9**	**2.3**	**2.5**	**2.7**	**2.9**

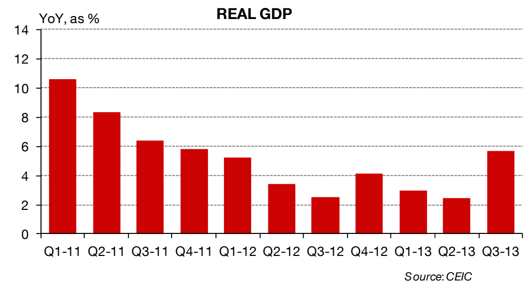
INDIA: A FEW SILVER LININGS

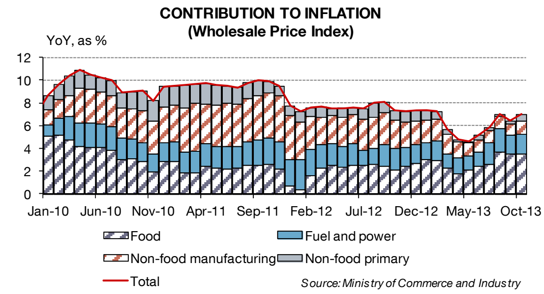
Economic growth is expected to recover while remaining weak over the next two years. Private consumption is likely to be the main driver while exports, supported by the INR depreciation, would gradually improve in line with the global environment.

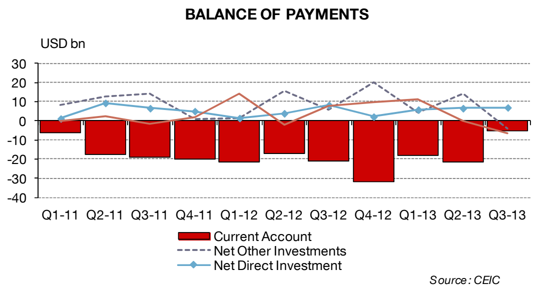
Real GDP growth sharply rebounded to 5.6% YoY in Q3-13 driven by exports which benefited from the significant INR depreciation over the summer. However, this rebound may prove to be short-lived as reflected by continued declining car sales and the lowest business confidence since Q3-09. The economy growth is expected to rise only slightly to 4.3% in 2013, and to gradually improve to 5% in 2014 and to 6% in 2015. The decline in political uncertainties after the general elections scheduled in May 2014 would boost domestic demand while exports would benefit from the INR depreciation and the gradual recovery in external demand.

Wholesale Price Index rose to an eight-month high of 7% YoY in October 2013 led by higher food prices (+18.2% YoY) and the pass through of energy prices increases. The INR depreciation also added to inflationary pressures. The RBI hiked its policy rate by a cumulative 50bps to 7.75% in September and October. The INR has stabilized at 62 per USD, well off its weak point at 68 in August 2013. Inflation is expected to remain persistently high, averaging 6-6.5% over the next two years, reflecting structural bottlenecks on the supply side.

The current account deficit narrowed substantially in Q3-13 to USD5bn on improvement in the trade deficit. While fewer concerns on the external balance could improve foreign investors' perception of the country, public finances remain the Achilles' heels. Populist spending ahead of the elections is likely to cause some fiscal slippage. The Food Security Bill which aims to provide subsided food grains to 2/3 of the population (from 1/3 currently) would put increasing pressure on the budget deficit which is projected to widen to 7.5% of GDP in 2013 while the public debt remains high (68% of GDP).







As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Value Added (at factor cost)	**6.2**	**5.0**	**4.3**	**5.0**	**6.0**
Real GDP (at market prices)	**6.3**	**3.2**	**4.3**	**5.0**	**6.0**
Private consumption	8.0	4.0	3.8	5.4	6.8
Gross Fixed Capital Formation	4.4	1.7	4.8	7.2	8.3
Exports	15.3	3.0	8.3	9.9	11.5
Imports	21.5	6.8	6.7	10.7	12.3
Inflation rate	**9.0**	**7.4**	**5.7**	**6.0**	**6.5**
Public Sector Balance (as % of GDP)	**-8.1**	**-7.1**	**-7.5**	**-7.0**	**-7.1**
Public Debt (as % of GDP)	**66.4**	**66.7**	**67.0**	**68.0**	**67.7**
External Debt (as % of GDP)	**18.1**	**20.9**	**21.8**	**20.9**	**20.5**
Current Account Balance (as % of GDP)	**-4.2**	**-4.8**	**-4.2**	**-3.8**	**-3.5**

BRAZIL: HEADACHE FOR THE BCB

The recovery is very gradual and uneven, and inflation remains elevated. Protracted weak investment since 2011 is limiting near term growth. External and fiscal accounts have continued to deteriorate. The BRL depreciation and the resilience of inflation are forcing the BCB to adopt a tighter than expected monetary policy.

GDP decreased 0.5% in Q3 2013 compared to the previous quarter. A major driver of the contraction was a sharp decline in investment, which plunged 2.2%. Exports dropped 1.4%, while imports were almost flat. The contraction of investment and exports follows very strong expansions in the previous quarter.

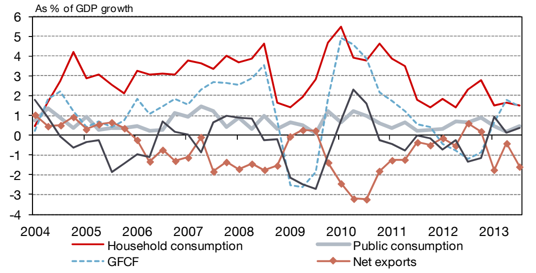
Poor fiscal data for September, in which the Brazilian government posted its largest monthly primary fiscal shortfall since December 2008, has translated into the increase of the country's 5-year sovereign CDS spread. The credibility of Brazil's long-standing fiscal framework is being weakened by excessive fine tuning of fiscal policy. The present expansionary stance is characterized by higher current expenditures while public investments are shrinking slightly.

After reaching a peak of 6.7% in June, inflation receded to 5.8% in November, mainly due to the moderation in food prices. Yet, the recent decline was not widespread as services and core measures show that price pressures remain strong. A weaker currency and resilient expectations would complicate the BCB's task to moderate inflation further.

The depreciation pressures on the BRL have eased somewhat in part due to the BCB's scheme to inject USD liquidity. Still, the BRL is currently more than 15% weaker than it was before Bernanke's tapering speech in May.

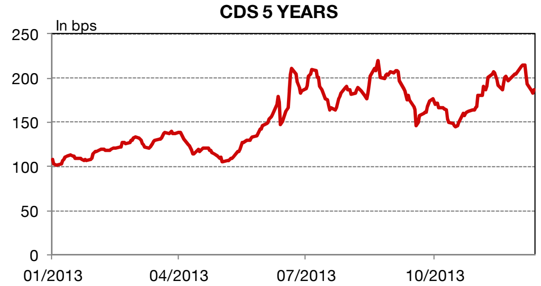
Looking ahead, we expect the better performance of the world economy and a more robust expansion in investment to drive GDP growth slightly higher in 2014 and 2015 to 2.4% and 2.5% respectively. The depreciation of the exchange rate and better oil balance outturns are likely to pave the way for some improvement of the trade balance and, therefore, of the current account deficit.

CONTRIBUTION TO YOY GDP GROWTH



Source: Datastream

CDS 5 YEARS



Source : Bloomberg

EXCHANGE RATE

Source: Datastream

As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**2.7**	**1.0**	**2.2**	**2.4**	**2.5**
Households consumption	4.1	3.2	2.2	2.0	2.5
Investment	4.7	-4.0	6.0	2.5	5.0
Exports	4.5	0.5	1.3	4.9	6.6
Imports	9.7	0.2	8.4	3.2	6.8
Contribution of inventories to growth	-0.4	-0.9	0.2	0.2	0.0
Inflation rate (CPIA)	**6.6**	**5.4**	**6.2**	**6.2**	**5.6**
Public balance (as % of GDP)	**-2.6**	**-2.4**	**-3.1**	**-3.5**	**-3.1**
Current account balance (as % of GDP)	**-2.1**	**-2.4**	**-3.7**	**-3.3**	**-2.9**

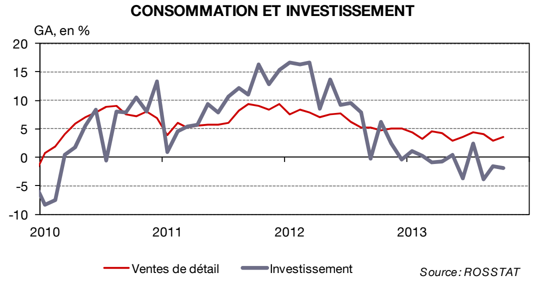
SOCIETE GENERALE

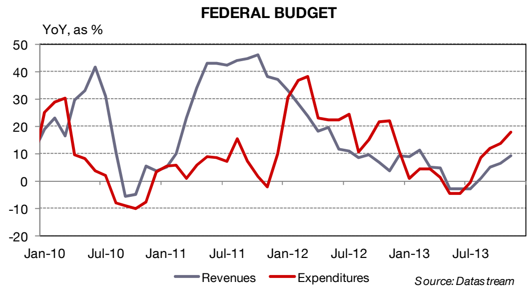
RUSSIA: ON A SLOW MODE

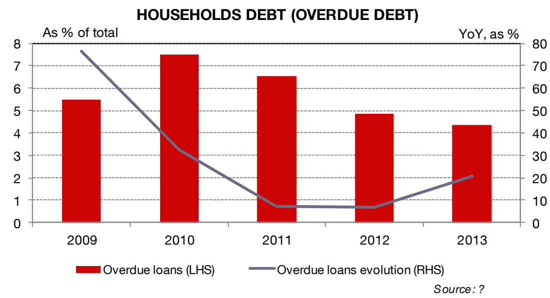
The expected rebound in the second half of the year did not materialise, raising further questions about the country's growth potential. Nonetheless, some positive signs have emerged since October, particularly in the transportation, agriculture and public services sectors. However, investment spending remains on a downward trend, and household consumption is still slowing. All in all, growth will recover over the next several quarters, mainly due to fiscal stimulus—but this recovery will be limited.

The economy continues to move at a sluggish pace. Third-quarter growth came out at 1.3% YoY, after 1.2% in Q2. However, since October, a slight improvement can be seen with growth in some sectors including agriculture and public utilities (electricity, water) and a recovery in transportation. In this context, investment spending remains in contraction and consumption continues to slow down. Meanwhile, public expenditures are increasing. These developments are occurring within an environment where the price of crude oil is discouraging investment in the oil and gas sector. Furthermore, the slight deterioration of the labour market observed over the last months is still underway, accompanied by a slowdown in real wage growth and lending to households, harming the prospects for private consumption. This confirms the view that acceleration in growth will largely depend on the government's willingness to take on fiscal stimulus measures.

Russia's central bank remains on course to gradually shift its monetary policy towards an inflation-targeting regime. This implies a flexible exchange rate and interest rate-guided policy. However, the means through which this policy will be channelled to interest rates set by banks is not yet functional. In fact, interest rates on household credit are approximately 20% annually while inflation is below 7%. In a context where debt repayment by households maintains a significant share of disposable income, growth in consumption is likely to be restrained due to excessively high real interest rates.







As %	2011	2012	2013 (f)	2014 (f)	2015 (f)
Real GDP	**4.3**	**3.4**	**1.5**	**2.0**	**2.0**
Private consumption	6.0	6.8	4.5	4.5	4.5
Public spending	2.5	-0.2	1.0	1.0	2.0
Gross Fixed Capital Formation	7.0	6.0	0.0	2.0	2.0
Exports of goods and services	29.3	3.0	2.5	3.0	3.0
Imports of goods and services	28.5	7.7	5.0	8.0	8.0
Consumer prices (CPI)	**8.4**	**5.0**	**6.5**	**5.0**	**5.0**
Foreign debt (as % of GDP)	**31.0**	**32.0**	**32.0**	**32.0**	**32.0**
Budget balance (as % of GDP)	**0.8**	**0.0**	**-0.1**	**-1.5**	**-1.0**
Public debt (as % of GDP)	**11.0**	**12.0**	**13.0**	**13.0**	**14.0**

COMMODITIES: DOWNWARD PRESSURES TO CONTINUE

Amid concerns of slowing growth in emerging markets, namely China, and the prospect of reduced monetary support from the US Federal Reserve, industrial metals prices are lower compared to last year. On the contrary, supply uncertainties in the energy space are likely to support prices for few more quarters before we see any return to fundamentals.

OIL – Over Q3-2013, Saudi Arabia increased its production to more than 10m barrels per day (b/d) and exported 7.8m b/d in September, the highest monthly rate since November 2005. Meanwhile, Iran reached an agreement with the West to limit its nuclear program. Under the agreement, which will last for six months while a more permanent and comprehensive settlement is found, Iran will curb some of its nuclear activities in return for the release of some of Iran's oil assets. The agreement allows it to keep exporting crude at current levels and eases certain sanctions on auto parts, gold and precious metals. The deal, which is reversible, is not removing sanctions on oil exports.

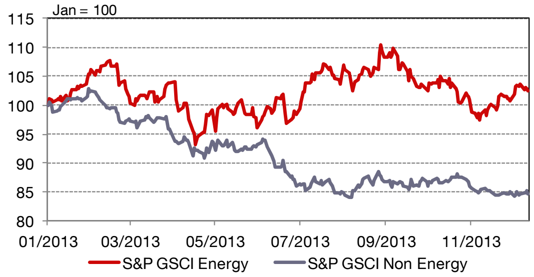
Yet, escalating political tensions and supply restrictions – particularly in Libya and increasingly in Iraq and Nigeria – continue to have a major impact on oil markets, helping to keep prices elevated despite the fact North American production is surging. Oil demand is expected to rise by around 1m b/d per year in 2014, driven by increases in emerging markets while consumption in the OECD should extend its decline.

Overall, the average price for Brent in 2013 – at around USD108 per barrel – will be lower than last year, and could trend downward in 2014 and 2015, although not as much as the fundamentals would suggest. Indeed, even though non-OPEC oil production should keep on growing steadily, we expect only limited resolution to political tensions in the Middle East North Africa region, such that large supply disruptions, and fears of disruptions, will continue to be a feature of the oil market.

COPPER – After initial strength in the fall, copper prices have broadly weakened. Although global copper inventories continue to head lower and are now at their lowest level since February 2013, prices remain susceptible to additional weakness due to production (both increasing mined ore and refined metal output) outstripping demand.

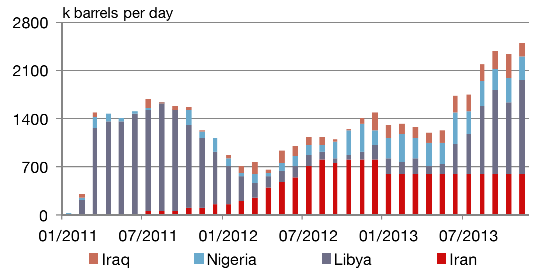
Indeed, even though some projects have been delayed over the past year, significant uptick in global mine production is likely, mainly from Chile, China, and Peru which are already the three largest copper producers. Going forward, some firms, depending on their cost curve, may cut production in the years ahead, narrowing any supply glut and putting a floor under prices.

COMMODITY PRICE INDEXES



Source : Datastream

ESTIMATED OPEC PRODUCTION OUTAGES



Sources: US EIA, SG

COPPER PRICE

Source : Datastream

Oil (in USD / barrel)

	16 Dec	2012	2013 (f)	2014 (f)	2015 (f)
Brent	110	112	108	100	97
WTI	97	94	98	95	95

Copper (in USD / tons)

	16 Dec	2012	2013 (f)	2014 (f)	2015 (f)
Copper	7,095	7,954	7,300	7,100	7,000

EURO AREA FORECASTS

EURO AREA

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**1.8**	**-0.6**	**-0.4**	**0.7**	**1.3**
Total domestic demand	**0.9**	**-2.2**	**-0.9**	**0.6**	**1.1**
Private consumption	0.4	-1.4	-0.5	0.6	1.0
Public consumption	0.0	-0.6	0.3	0.1	0.3
Total investment	1.9	-3.9	-3.2	1.2	2.6
Contrib. of inventories to GDP growth	0.3	-0.5	-0.1	0.0	0.0
External trade contribution	**0.9**	**1.6**	**0.5**	**0.1**	**0.2**
Exports of goods and services	6.9	2.7	1.2	4.2	4.5
Imports of goods and services	4.9	-0.8	0.1	4.3	4.5
Consumer prices	**2.7**	**2.5**	**1.3**	**1.3**	**1.5**
% Change year-on-year, end of period	2.7	2.2	1.0	1.5	1.6
Real Disposable income (% Change)	**-0.3**	**-1.7**	**-0.7**	**0.4**	**0.5**
Unemployment rate (% average)	**10.2**	**11.4**	**12.1**	**12.4**	**12.4**

(National accounts adjusted for seasonal and calendar effects)

GROSS DOMESTIC PRODUCT

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Germany	3.4	0.9	0.5	1.5	1.7
Austria	2.7	0.8	0.5	1.8	2.3
Belgium	1.8	-0.1	0.1	0.8	1.3
Cyprus	0.4	-2.4	-8.7	-3.9	-1.0
Spain	0.1	-1.6	-1.3	0.3	0.9
Finland	2.8	-0.2	0.2	1.4	1.1
France	2.0	0.0	0.2	0.6	1.2
Greece	-7.1	-6.4	-4.0	-1.0	0.6
Ireland	2.2	0.2	0.3	1.2	2.0
Italy	0.6	-2.6	-2.0	0.0	0.8
Luxembourg	1.9	-0.2	1.8	1.3	2.1
Malta	1.7	0.8	1.4	1.8	2.0
Netherlands	1.0	-1.3	-1.0	0.4	1.4
Portugal	-1.3	-3.2	-1.8	0.0	1.0
Slovakia	3.2	2.0	0.7	2.8	3.4
Slovenia	1.1	-2.4	-2.0	-0.2	0.8

FRANCE

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**2.0**	**0.0**	**0.2**	**0.6**	**1.2**
Domestic demand (incl. inventories)	**2.0**	**-0.9**	**0.4**	**0.5**	**1.2**
Private consumption	0.5	-0.4	0.4	1.1	1.6
General gov. consumption expenditure	0.4	1.4	1.7	-0.4	-0.6
GFCF of non financial enterprises	3.1	-1.9	-2.1	0.1	3.3
GFCF of households	2.3	-0.4	-3.9	-1.0	1.8
GFCF of general government	0.3	-0.6	-1.4	-0.1	0.8
Contrib. of inventories to GDP growth	1.1	-0.8	0.2	0.1	0.0
External trade contribution	**0.0**	**1.0**	**-0.1**	**0.0**	**0.0**
Exports of goods and services	5.6	2.5	0.7	4.1	4.1
Imports of goods and services	5.3	-0.9	1.1	3.8	3.9
Consumer prices (CPI)	**2.1**	**2.0**	**0.9**	**1.1**	**1.5**
% change year-on-year, end of period	2.5	1.3	0.7	1.5	1.6
Employment	**0.5**	**-0.1**	**-0.6**	**-0.2**	**0.5**
Unemployment rate (ILO)	**9.2**	**9.8**	**10.5**	**10.8**	**10.8**
Real Disposable income	**0.7**	**-0.9**	**0.4**	**0.9**	**1.6**
Household saving rate	**16.1**	**15.6**	**15.7**	**15.5**	**15.5**

GERMANY

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**3.4**	**0.9**	**0.5**	**1.5**	**1.7**
Domestic demand (incl. inventories)	**3.0**	**-0.2**	**0.8**	**1.7**	**1.8**
Private consumption	2.3	0.7	1.0	1.0	1.1
Public consumption	1.0	1.0	0.5	1.2	1.6
GFCF of capital goods	6.0	-3.3	-1.8	2.9	3.6
GFCF of construction	8.1	-0.5	-0.2	4.9	4.4
GFCF of general government	4.9	-5.2	1.7	9.0	5.0
Contrib. of inventories to GDP growth	0.1	-0.5	0.2	0.0	0.0
External trade contribution	**0.7**	**1.1**	**-0.3**	**0.0**	**0.0**
Exports of goods and services	8.1	3.8	0.5	4.7	5.3
Imports of goods and services	7.5	1.8	1.2	5.4	5.8
Consumer prices (CPI)	2.1	2.0	1.6	1.6	1.6
% change year-on-year, end of period	2.0	2.0	1.9	1.5	1.7
Employment	**1.4**	**1.1**	**0.6**	**0.8**	**0.7**
Unemployment rate	**7.1**	**6.8**	**6.8**	**6.7**	**6.5**
Unemployment rate (ILO)	**6.0**	**5.5**	**5.4**	**5.3**	**5.1**
Real Disposable income	**1.8**	**0.3**	**0.6**	**0.9**	**0.9**
Household saving rate	**10.4**	**10.3**	**9.8**	**9.8**	**9.6**

ITALY

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**0.6**	**-2.6**	**-2.0**	**0.0**	**0.8**
Domestic demand (incl. inventories)	**-0.8**	**-5.2**	**-2.9**	**-0.3**	**0.6**
Private consumption	-0.3	-4.2	-2.5	-0.3	0.6
Public consumption	-1.1	-2.6	-0.2	-0.5	-0.1
Expenditure on capital goods	0.6	-10.0	-5.4	0.7	1.4
Expenditure on construction	-3.3	-6.5	-6.7	-0.2	1.1
Total investment	-1.6	-8.4	-5.3	0.3	1.2
Contrib. of inventories to GDP growth	-0.1	-0.7	-0.4	0.0	0.0
External trade contribution	**1.4**	**2.8**	**0.9**	**0.3**	**0.9**
Exports of goods and services	6.9	1.9	0.0	3.1	3.9
Imports of goods and services	1.4	-7.5	-3.2	2.3	3.3
Consumer prices (CPI)	**2.9**	**3.3**	**1.3**	**1.1**	**1.5**
% change year-on-year, end of period	3.3	3.3	1.1	1.1	1.5
Employment	**0.3**	**-0.3**	**-1.8**	**-0.2**	**0.7**
Unemployment rate	**8.4**	**10.7**	**12.3**	**12.8**	**12.8**
Real Disposable income	**-0.6**	**-4.7**	**-1.7**	**-0.5**	**0.8**
Household saving rate	**11.8**	**11.5**	**12.2**	**12.0**	**12.2**

SPAIN

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**0.1**	**-1.6**	**-1.3**	**0.3**	**0.9**
Domestic demand (incl. inventories)	**-2.0**	**-4.1**	**-2.9**	**-0.4**	**0.2**
Private consumption	-1.2	-2.8	-2.5	0.2	0.3
Public consumption	-0.5	-4.8	-1.1	-1.3	-0.9
Total investment	-5.4	-7.0	-6.0	-1.2	0.8
Contrib. of inventories to GDP growth	-0.1	0.0	0.0	0.0	0.0
External trade contribution	**2.1**	**2.5**	**1.6**	**0.7**	**0.7**
Exports of goods and services	7.6	2.1	5.5	6.0	4.1
Imports of goods and services	-0.1	-5.7	0.5	4.4	2.3
Consumer prices (CPI)	**3.2**	**2.4**	**1.4**	**1.1**	**1.2**
% change year-on-year, end of period	2.4	2.9	0.2	1.2	1.2
Employment	**-1.9**	**-4.5**	**-3.0**	**0.5**	**0.4**
Unemployment rate	**21.6**	**25.0**	**26.5**	**27.1**	**27.2**
Real Disposable income	**-2.5**	**-5.2**	**-3.0**	**0.4**	**0.6**
Household saving rate	**12.7**	**10.4**	**10.1**	**10.3**	**10.6**

(National accounts adjusted for seasonal and calendar effects)

OUT SIDE EURO AREA FORECASTS

UNITED STATES

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**1.8**	**2.8**	**1.7**	**2.5**	**2.9**
Domestic demand (incl. inventories)	**1.7**	**2.6**	**1.7**	**2.5**	**2.7**
Personal consumption	2.5	2.2	1.9	2.4	2.6
Public consumption	-3.2	-1.0	-2.0	-0.6	-0.4
Residential fixed investment	0.5	12.9	13.6	8.8	6.1
Nonresidential fixed investment	7.6	7.3	2.6	5.6	6.6
Contrib. of inventories to GDP growth	-0.2	0.2	0.1	0.1	0.0
External trade contribution	**0.1**	**0.1**	**0.0**	**-0.1**	**0.1**
Exports of goods and services	7.1	3.5	2.3	4.1	4.6
Imports of goods and services	4.9	2.2	1.7	3.9	3.2
Consumer prices, excl. fresh food (CPI)	**3.1**	**2.1**	**1.5**	**2.0**	**2.2**
% change year-on-year, end of period	3.3	1.9	1.5	2.0	2.2
Employment	**1.2**	**1.7**	**1.6**	**1.7**	**1.7**
Unemployment rate	**8.9**	**8.1**	**7.5**	**7.1**	**6.8**
Real disposable income	**2.4**	**2.0**	**0.8**	**2.3**	**2.5**
Household saving rate	**5.7**	**5.6**	**4.6**	**4.5**	**4.4**

UNITED KINGDOM

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**1.1**	**0.1**	**1.3**	**1.8**	**2.0**
Domestic demand (incl. inventories)	**-0.1**	**1.0**	**1.3**	**1.6**	**1.7**
Private consumption	-0.4	1.2	1.8	1.7	2.0
Public spending	-1.0	1.9	-0.3	-0.1	-0.3
Housing investment	0.4	-2.5	5.7	6.1	6.1
Business investment	-1.3	2.6	-5.6	2.7	3.8
Total investment	-2.4	0.9	-2.8	3.2	3.5
Contrib. of inventories to GDP growth	0.5	-0.3	0.5	0.2	0.0
External trade contribution	**1.2**	**-0.7**	**-0.2**	**0.1**	**0.2**
Exports of goods and services	4.5	1.0	1.3	3.7	3.8
Imports of goods and services	0.3	3.1	1.9	3.0	3.0
Consumer prices (HCPI)	**4.5**	**2.8**	**2.6**	**2.5**	**2.8**
% change year-on-year, end of period	4.2	2.7	2.2	2.7	2.8
Employment	**0.2**	**0.8**	**1.3**	**0.6**	**0.7**
Unemployment rate (ILO)	**8.1**	**8.0**	**7.6**	**7.4**	**7.1**
Real disposable income	**-1.2**	**1.6**	**0.2**	**1.4**	**1.2**
Household saving rate	**6.7**	**6.8**	**5.4**	**5.2**	**4.3**

JAPAN

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**-0.4**	**1.4**	**1.6**	**1.5**	**1.0**
Domestic demand (incl. inventories)	**0.5**	**2.3**	**1.7**	**1.0**	**0.5**
Private consumption	0.3	2.1	1.9	0.9	0.8
Public spending	-0.4	1.8	3.3	-0.3	-2.4
Residential investment	5.1	2.8	7.6	2.4	1.2
Business investment	4.1	3.6	-1.6	3.2	4.1
Contrib. of inventories to GDP growth	-0.2	0.1	-0.2	0.0	0.0
External trade contribution	**-0.8**	**-0.7**	**-0.1**	**0.6**	**0.6**
Exports of goods and services	-0.4	-0.1	1.8	7.1	6.9
Imports of goods and services	5.9	5.4	2.4	4.0	4.1
Consumer prices	**-0.3**	**0.0**	**0.3**	**2.6**	**1.5**
% change year-on-year, end of period	-0.2	-0.1	1.1	2.8	0.5
Employment	**-0.1**	**-0.3**	**0.5**	**0.0**	**0.1**
Unemployment rate	**4.6**	**4.4**	**4.0**	**4.0**	**4.0**
Real disposable income	**0.6**	**1.1**	**1.7**	**0.3**	**1.1**
Household saving rate	**2.5**	**1.6**	**1.4**	**0.9**	**1.2**

CHINA

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**9.3**	**7.7**	**7.6**	**7.5**	**7.3**
Final consumption (contrib. ppt of GDP)	5.3	5.3	4.1	4.0	4.0
Gross fixed capital formation (contrib. ppt of GDP)	4.1	4.6	3.5	3.4	3.3
Foreign trade (contrib. ppt of GDP)	-1.0	0.5	0.0	0.0	0.0
Consumer prices	**5.4**	**2.6**	**2.9**	**3.0**	**3.0**
Central Government Balance (as % of GDP)	**-1.3**	**-2.2**	**-2.5**	**-2.0**	**-1.5**
Central Government Debt (as % of GDP)	**28.7**	**26.1**	**22.9**	**20.9**	**19.3**
External debt (as % of GDP)	**9.5**	**9.0**	**8.8**	**8.5**	**8.0**
Current account balance (as % of GDP)	**1.9**	**2.3**	**2.5**	**2.7**	**2.9**

INDIA

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Value Added (at factor cost)	**6.2**	**5.0**	**4.3**	**5.0**	**6.0**
Real GDP (at market prices)	**6.3**	**3.2**	**4.3**	**5.0**	**6.0**
Private consumption	8.0	4.0	3.8	5.4	6.8
Gross Fixed Capital Formation	4.4	1.7	4.8	7.2	8.3
Exports	15.3	3.0	8.3	9.9	11.5
Imports	21.5	6.8	6.7	10.7	12.3
Wholesale Prices	**9.0**	**7.4**	**5.7**	**6.0**	**6.5**
Public Sector Balance (as % of GDP)	**-8.1**	**-7.1**	**-7.5**	**-7.0**	**-7.1**
Public Debt (as % of GDP)	**66.4**	**66.7**	**67.0**	**68.0**	**67.7**
External Debt (as % of GDP)	**18.1**	**20.9**	**21.8**	**20.9**	**20.5**
Current Account Balance (as % of GDP)	**-4.2**	**-4.8**	**-4.2**	**-3.8**	**-3.5**

(Fiscal year start 1st April)

BRAZIL

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**2.7**	**1.0**	**2.2**	**2.4**	**2.5**
Private consumption	4.1	3.2	2.2	2.0	2.5
Gross Fixed Capital Formation	4.7	-4.0	6.0	2.5	5.0
Contrib. of inventories to GDP growth	-0.4	-0.9	0.2	0.2	0.0
Exports of goods and services	4.5	0.5	1.3	4.9	6.6
Imports of goods and services	9.7	0.2	8.4	3.2	6.8
Consumer prices (CPI)	**6.6**	**5.4**	**6.2**	**6.2**	**5.6**
Public balance (as % of GDP)	**-2.6**	**-2.4**	**-3.1**	**-3.5**	**-3.1**
Current account (as % of GDP)	**-2.1**	**-2.4**	**-3.7**	**-3.3**	**-2.9**

RUSSIA

Annual % change	2011	2012	2013 (f)	2014 (f)	2015 (f)
Gross Domestic Product (GDP)	**4.3**	**3.4**	**1.5**	**2.0**	**2.0**
Private consumption	6.0	6.8	4.5	4.5	4.5
Public spending	2.5	-0.2	1.0	1.0	2.0
Gross Fixed Capital Formation	7.0	6.0	0.0	2.0	2.0
Exports of goods and services	29.3	3.0	2.5	3.0	3.0
Imports of goods and services	28.5	7.7	5.0	8.0	8.0
Consumer prices (CPI)	**8.4**	**5.0**	**6.5**	**5.0**	**5.0**
Foreign debt (as % of GDP)	**31.0**	**32.0**	**32.0**	**32.0**	**32.0**
Budget balance (as % of GDP)	**0.8**	**0.0**	**-0.1**	**-1.5**	**-1.0**
Public debt (as % of GDP)	**11.0**	**12.0**	**13.0**	**13.0**	**14.0**

ECONOMIC STUDIES
CONTACTS

Olivier GARNIER
Group Chief Economist
+33 1 42 14 88 16
olivier.garnier@socgen.com

Olivier de BOYSSON
Emerging Markets Chief Economist
+33 1 42 14 41 46
olivier.de-boysson@socgen.com

Marie-Hélène DUPRAT
Senior Advisor to the Chief Economist
+33 1 42 14 16 04
marie-helene.duprat@socgen.com

Ariel EMIRIAN
Macroeconomic & Country Risk Analysis / CEI Country
+33 1 42 13 08 49
ariel.emirian@socgen.com

Benoît HEITZ
Macroeconomic & Country Risk Analysis / Euro zone and Europe
+33 1 58 98 74 26
benoit.heitz@socgen.com

Clémentine GALLÈS
Macro-sectorial Analysis / United States
+33 1 57 29 57 75
clementine.galles@socgen.com

Françoise BLAREZ
Macro-sectorial Analysis
+33 1 58 98 82 18
francoise.blarez@socgen.com

Marc-Antoine COLLARD
Gulf States, Latin America, Commodities
+33 1 57 29 62 28
marc-antoine.collard@socgen.com

Marc FRISO
Euro zone, Northern Europe & Sub-Saharan Africa
+33 1 42 14 74 49
marc.friso@socgen.com

Régis GALLAND
Middle East, North Africa & Central Asia
+33 1 58 98 72 37
regis.galland@socgen.com

Clément GILLET
Southern Europe
+33 1 42 14 31 43
clement.gillet@socgen.com

Emmanuel PERRAY
Macro-sectorial analysis
+33 1 42 14 09 95
emmanuel.perray@socgen.com

Sofia RAGHAI
Macro-sectorial analysis
+33 1 42 14 30 54
sofia.raghai@socgen.com

Sopanha SA
Asia
+33 1 58 98 76 31
sopanha.sa@socgen.com

Isabelle AIT EL HOCINE
Assistant
+33 1 42 14 55 56
isabelle.ait-el-hocine@socgen.com

Valérie TOSCAS
Assistant
+33 1 42 13 18 88
valerie.toscas@socgen.com

Sigrid MILLEREUX-BEZIAUD
Information specialist
+33 1 42 14 46 45
sigrid.millereux-beziaud@socgen.com

Tiphaine CAPPE de BAILLON
Statistic studies & Publishing
+33 1 42 14 00 25
tiphaine.cappe-de-baillon@socgen.com

Société Générale | Economic studies | 75886 PARIS CEDEX 18
http://www.societegenerale.com/en/Our-businesses/economic-studies
Tel: +33 1 42 14 55 56 — Tel: +33 1 42 13 18 88 – Fax: +33 1 42 14 83 29

SOCIETE GENERALE