

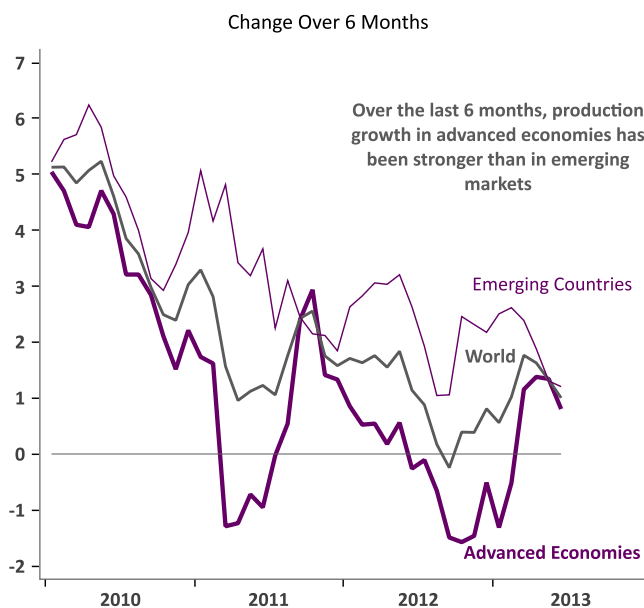


World Growth

Going it alone. The global economic picture is unquestionably looking brighter. Unlike previous recoveries, however, this one is fueled above all by consumer spending. The trend is especially noteworthy in Europe now that austerity policies have been scrapped. But it can also be observed in the United States—since the country has steered clear of the fiscal cliff dangers at the start of the year—and Japan, where the Abe administration's first moves have lifted the spirits of local consumers. Even in China, sustained consumer spending is what has offset the negative impact of an end to export support. So on the whole, the environment is more encouraging. Yet the missing ingredient here is what proved to be one of the key drivers of global growth in the 1990s—world trade. This has two main implications:

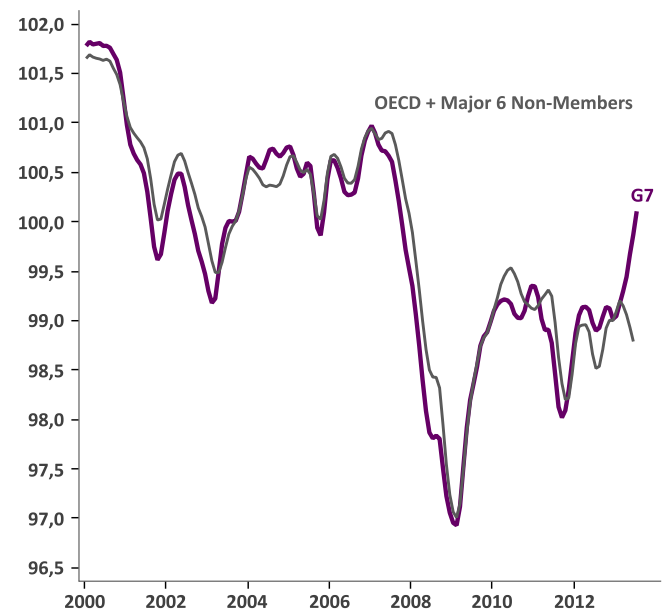
- 1- Global growth will be weaker than in the past, and will stay that way for some time.
- 2- There will be greater risk for economies that are still too dependent on exports, i.e., the emerging economies in general and more specifically those suffering from structural imbalances—Brazil, India, and South Africa—and increasingly burdened by mounting current account deficits.

Industrial Production excl. Construction



Sources: RichesFlores Research, Macrobond

Consumer Confidence

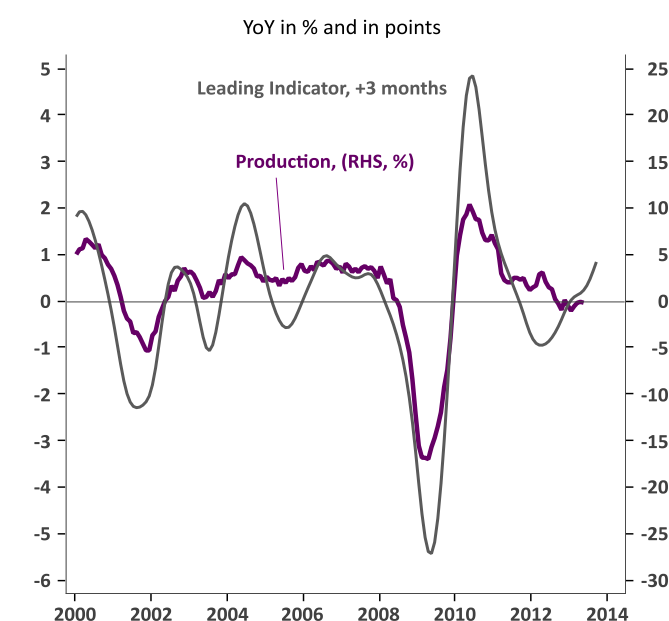


Sources: RichesFlores Research, Macrobond

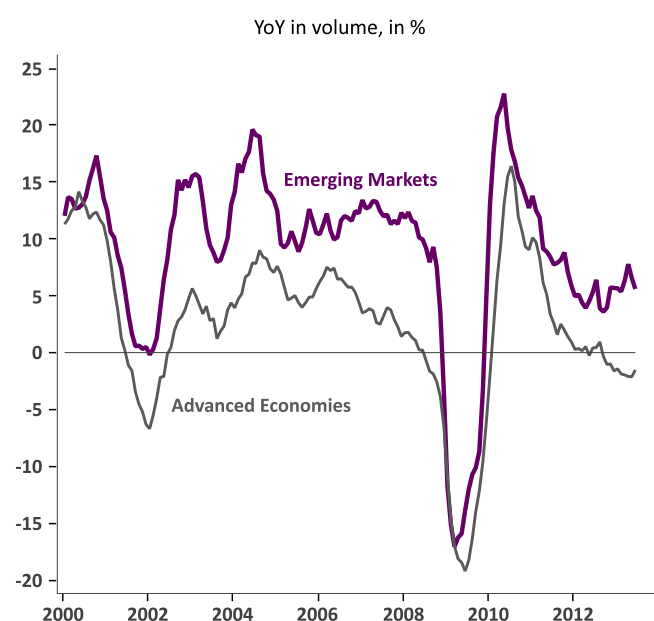
The global environment has at long last become more heartening. Worldwide leading economic indicators offer tangible signs of improvement—the first since the spring of 2012. After more than six months of stagnation, industrial production in the OECD countries is back on the path to growth. **But international trade indicators have remained strikingly feeble.**

In the advanced economies, demand is stuck in negative territory, and hasn't clearly picked up in the emerging markets either. Orders for capital goods have rebounded in the advanced economies, and worldwide automobile sales have held up well, but while this is certainly good news, it isn't enough to ensure adequate momentum in world trade.

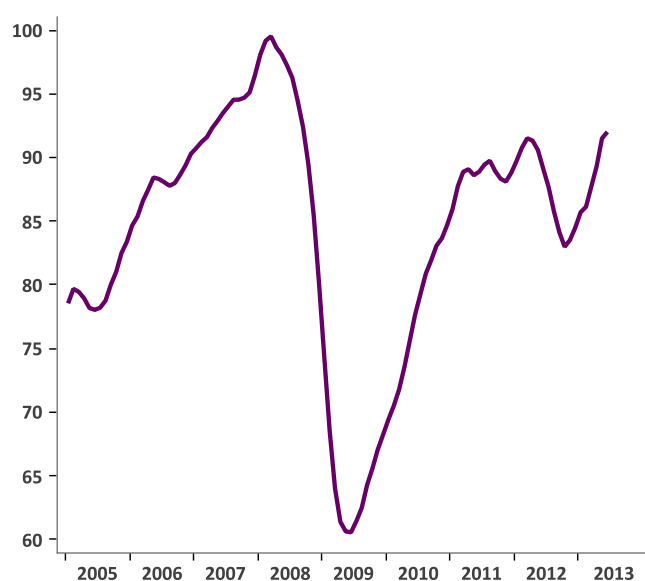
OECD: Leading Indicator and Industrial Production



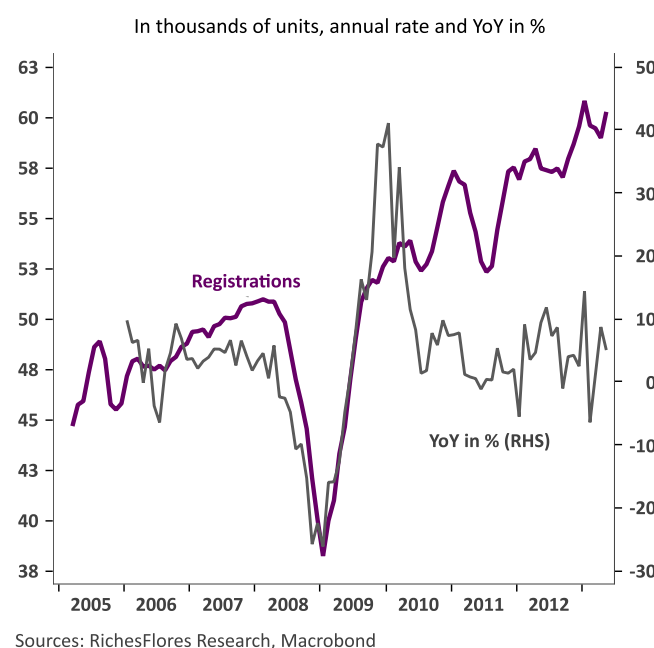
World Imports Annual Growth



Advanced Economies: Capital Goods Orders, Jan. 2008=100



World New Car Registrations

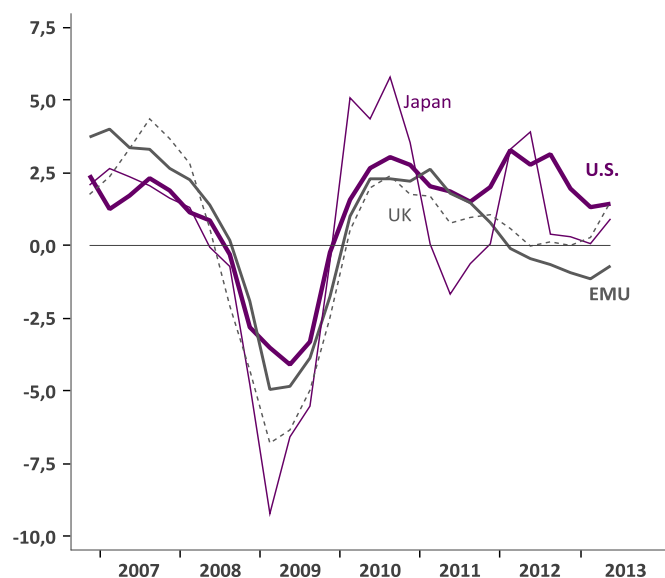


Recovery in the advanced economies. While the leading economic indicators in the U.S. are a mixed bag, the best news of the past few months comes from Europe and Japan. In both cases, the improvement is mainly attributable to changes in economic policy.

In the euro area and the United Kingdom, most economic indicators point in the right direction, suggesting that the recession will be over by the end of the summer.

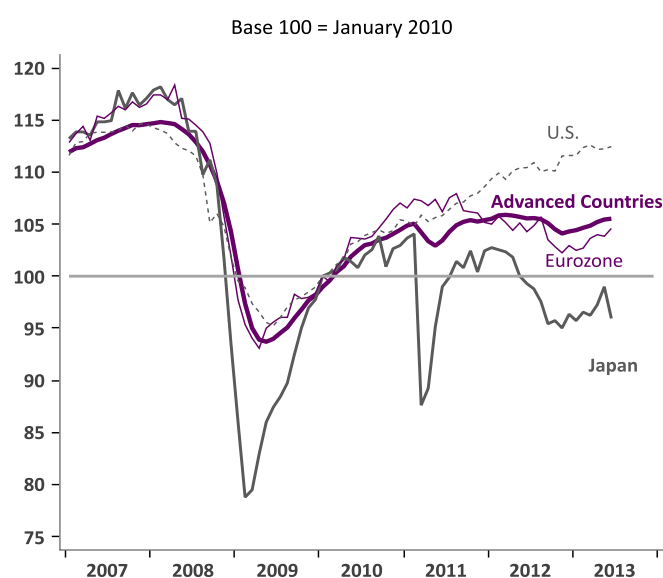
Even better, differences among advanced economies should begin to shrink in the next few quarters.

Annual GDP Growth for Major Advanced Economies, YoY in %



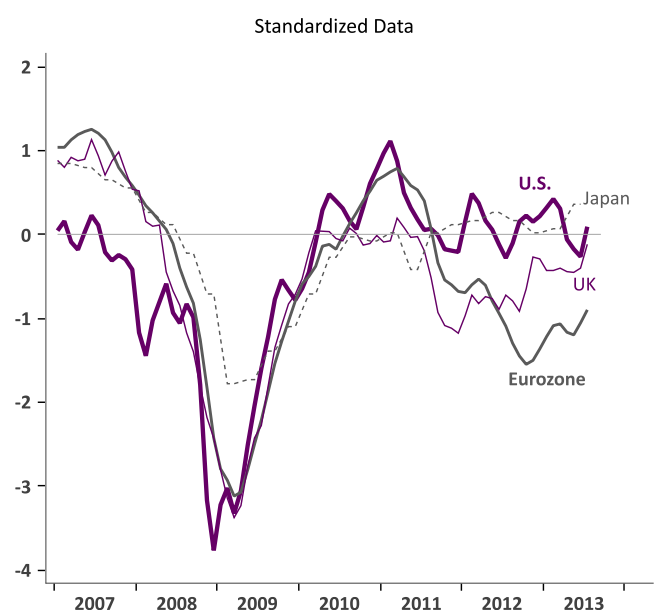
Sources: RichesFlores Research, Macrobond

Advanced Economies: Industrial Production excl. Construction



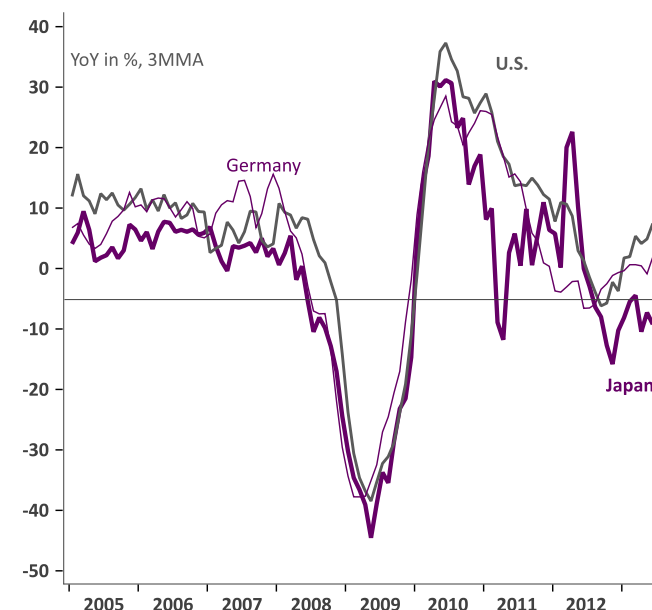
Sources: RichesFlores Research, Macrobond

Advanced Economies: Business Sentiment



Sources: RichesFlores Research, Macrobond

Capital Goods Orders

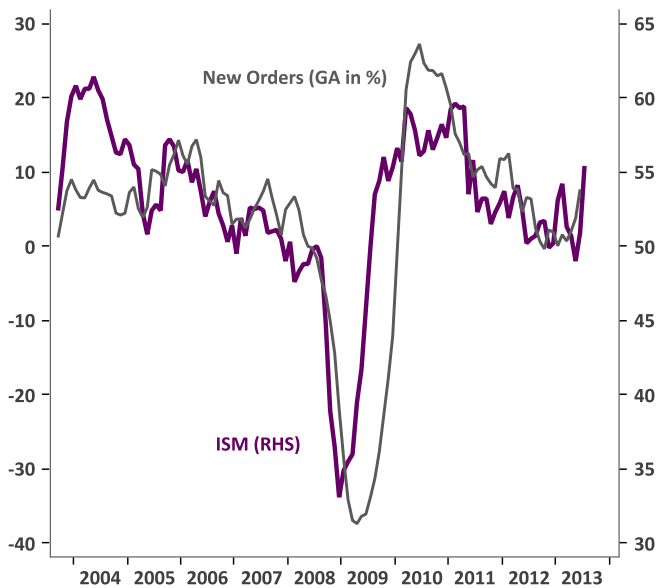


Sources: RichesFlores Research, Macrobond

A still disappointing U.S. economy. The U.S. economy hasn't performed as hoped for lately and is still delivering mixed data. As a result, consensus expectations for growth in 2013 have tumbled to a mere 1.3 percent.

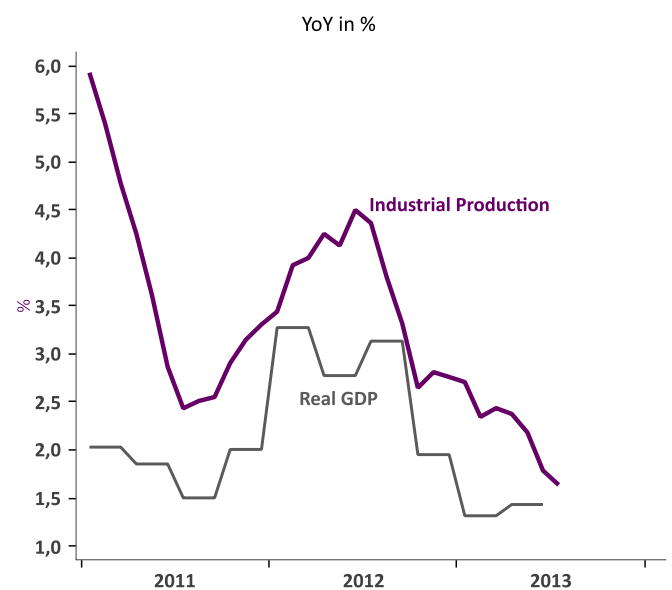
Despite a comprehensive national accounting revision in July (see *"The Upcoming Fed Meeting: Playing for Time"*), there is considerable uncertainty about where the U.S. economy is actually heading. With industrial output slowing, job creation numbers flat, and housing starts in free fall, the Fed has every reason to play it safe in the coming months.

United States: Manufacturing ISM and Durable Goods New Orders



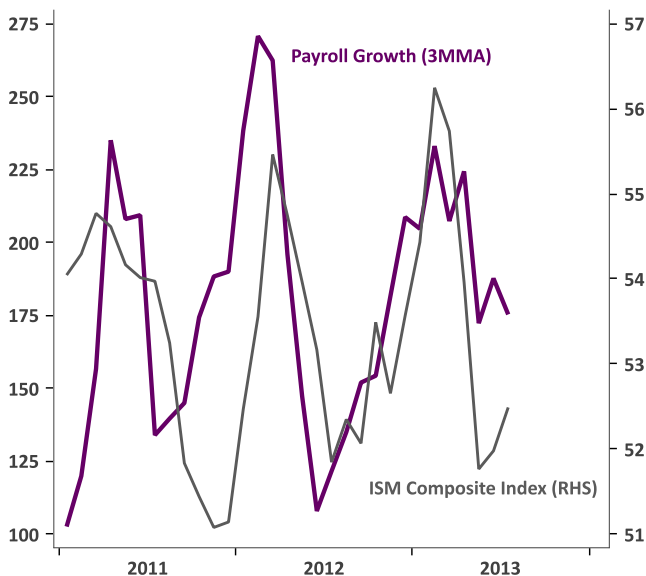
Sources: RichesFlores Research, Macrobond

United States: Real GDP Growth and Industrial Production



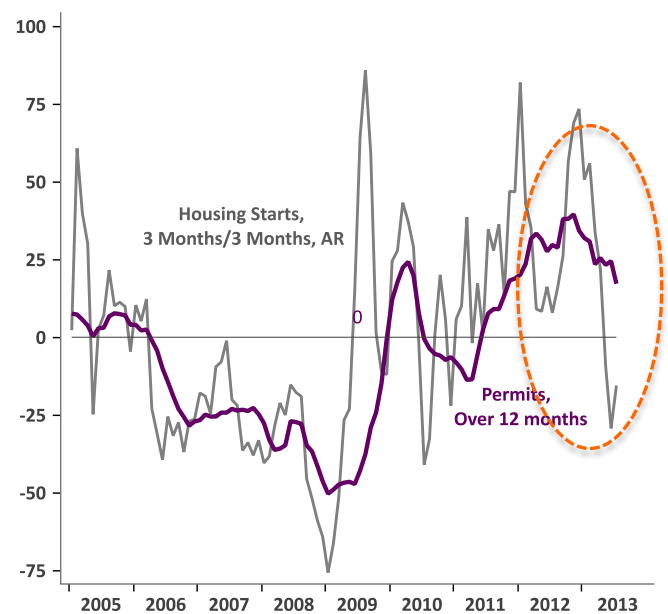
Sources: RichesFlores Research, Macrobond

United States: ISM Employment Composite and Monthly Payroll Growth



Sources: RichesFlores Research, Macrobond

United States: Housing Starts, 3MMA in %

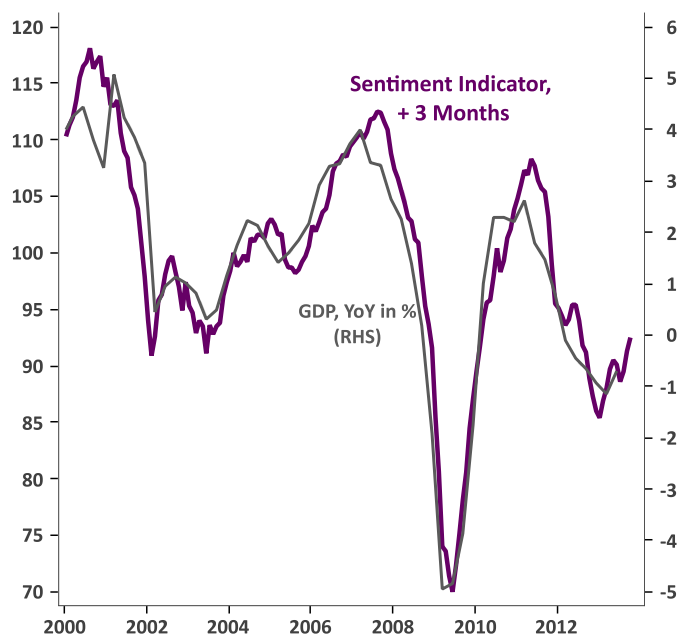


Sources: RichesFlores Research, Macrobond

Across-the-board improvement in the euro area. The recession is officially over in the euro area as a whole, and should be in every member country by year-end. The partial turn away from austerity is clearly what set the stage for an improvement fueled primarily by consumer spending.

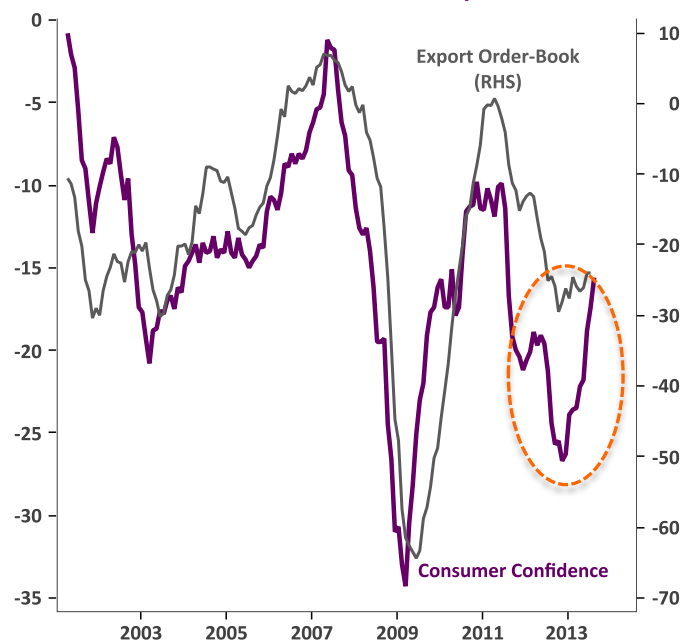
All industries except for construction are apparently growing again, while the employment and investment data show signs of stabilization.

Eurozone: Economic Sentiment and GDP Growth



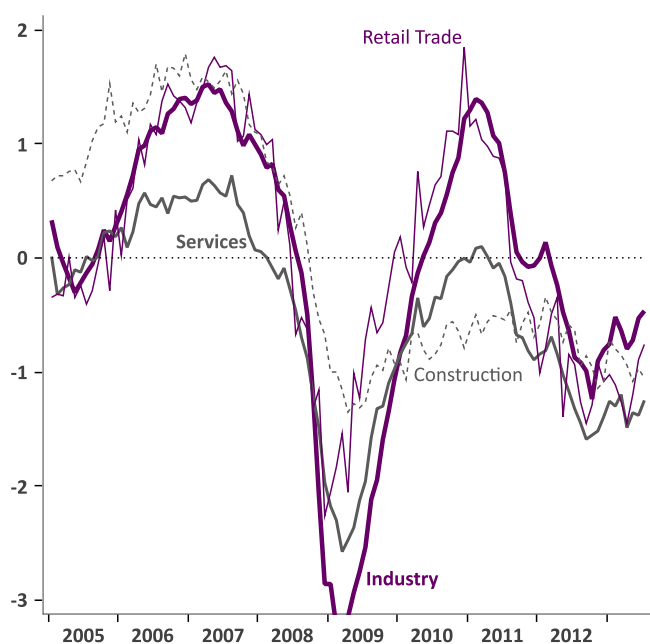
Sources: RichesFlores Research, Macrobond

EMU: Consumer Confidence and Export Order-Book



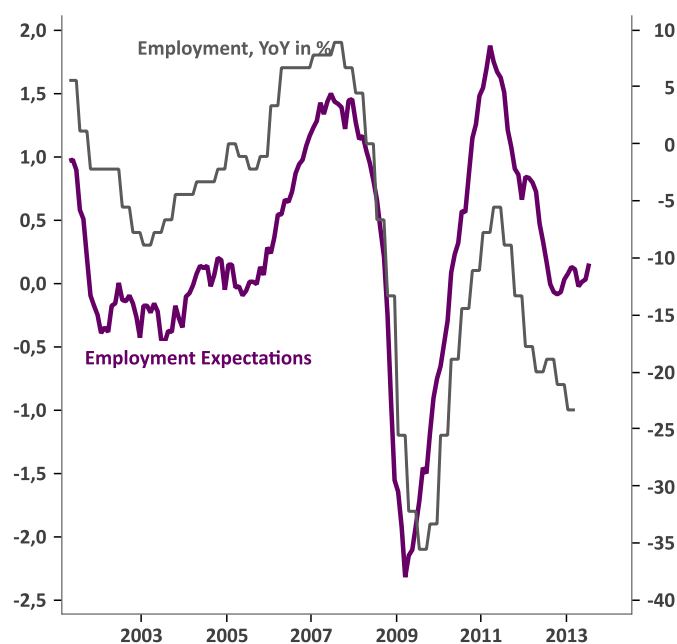
Sources: RichesFlores Research, Macrobond

EMU: Business Sentiment (Standardized Data)



Sources: RichesFlores Research, Macrobond

EMU: Employment and Perspectives on Employment

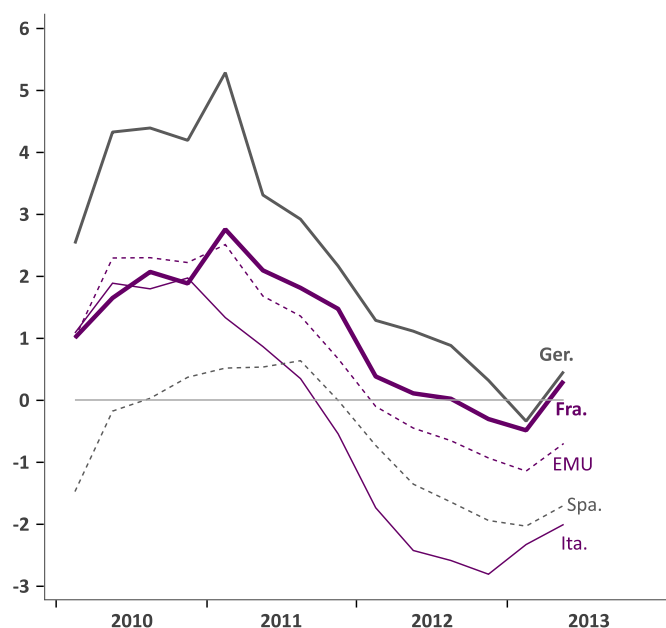


Sources: RichesFlores Research, Macrobond

But a great deal will depend on the banks. Although conditions vary significantly from country to country in the Eurozone, the shift in economic policy has been beneficial across the board. Real GDP growth at an annual rate has picked up everywhere. France is still affected by fiscal retrenchment measures that were introduced later than in Southern Europe, which explains why the improvement is more gradual, but even here, things are looking up on all fronts.

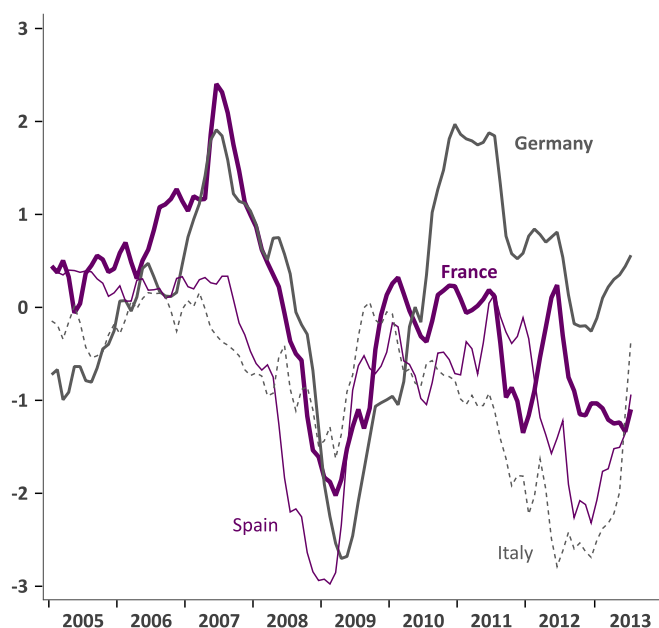
While the overall picture is encouraging, one big question remains: how much confidence can we have in the banking system to contribute to the recovery under way? Very hard to say.

GDP at Constant Prices, YoY in %



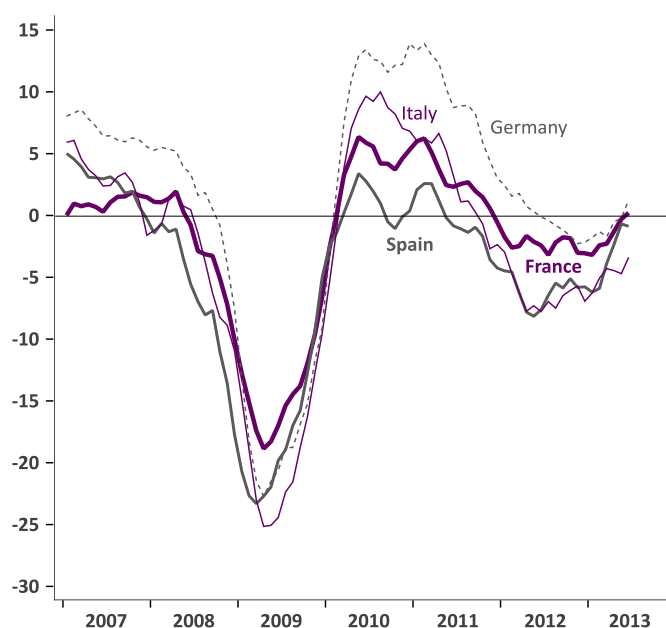
Sources: RichesFlores Research, Macrobond

Euro Zone: Consumer Confidence



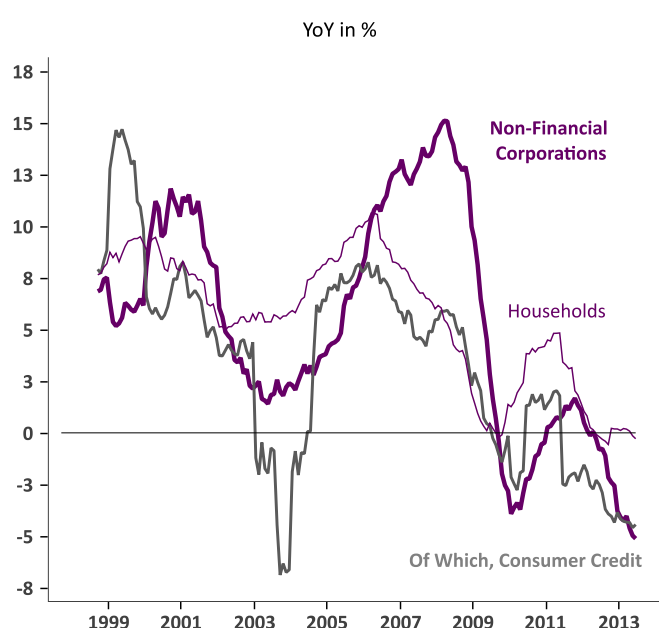
Sources: RichesFlores Research, Macrobond

Industrial Production Annual Growth, %



Sources: RichesFlores Research, Macrobond

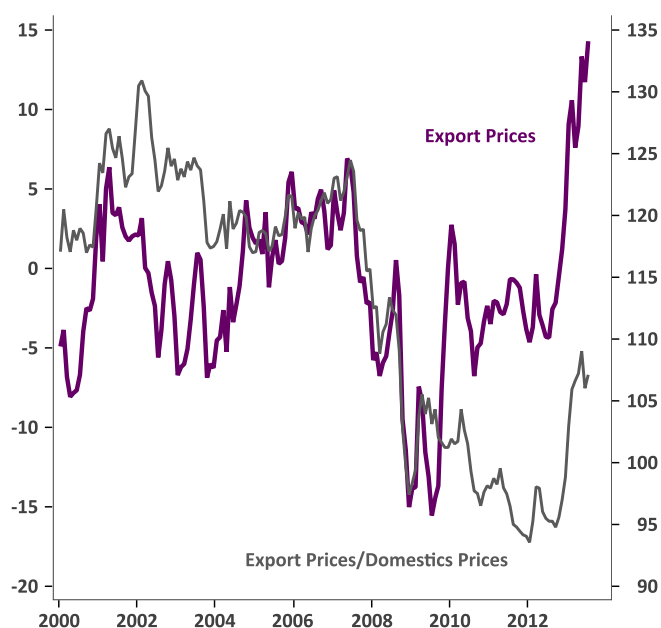
EMU: Credit to Private Sector



Sources: RichesFlores Research, Macrobond

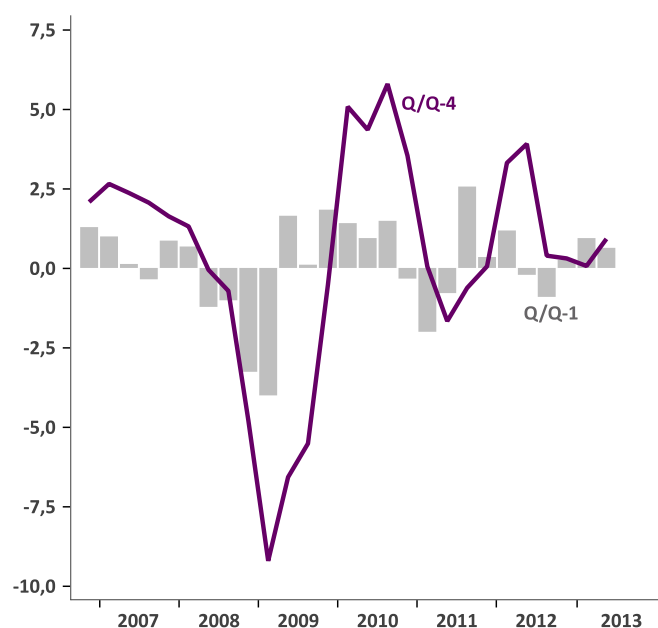
How long will Abenomics remain effective? In Japan, the Abe administration's approach has had a positive impact, at least on domestic demand and corporate earnings. The change of economic policy and measures to support households have boosted consumer spending, while a weaker yen has helped lift profit margins. Conspicuous by its absence, however, has been an upturn in exports: in volume, they still showed negative growth at mid-year on an annual basis, reflecting insufficient demand in the region. **This is no minor setback for a strategy posited almost entirely on making the country's exports more competitive** (see *"Japan Bull Markets Dies of Anemic Demand"*).

Japan: Exports Margin Indicator



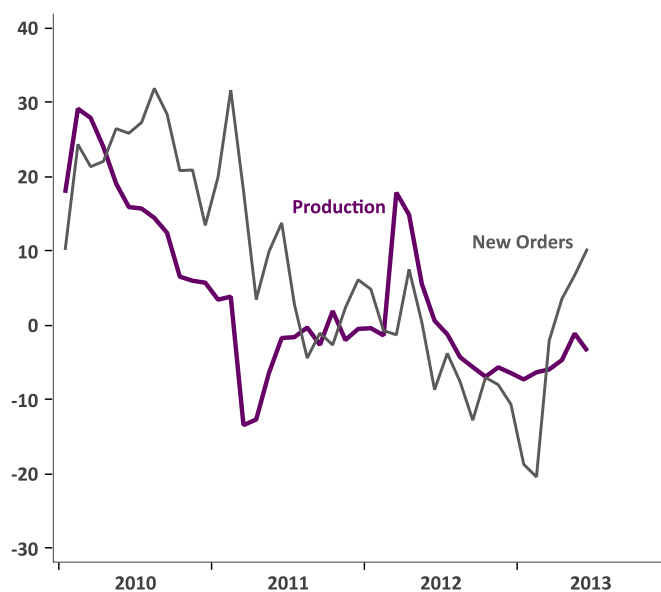
Sources: RichesFlores Research, Macrobond

Japan: Real GDP Growth, in %



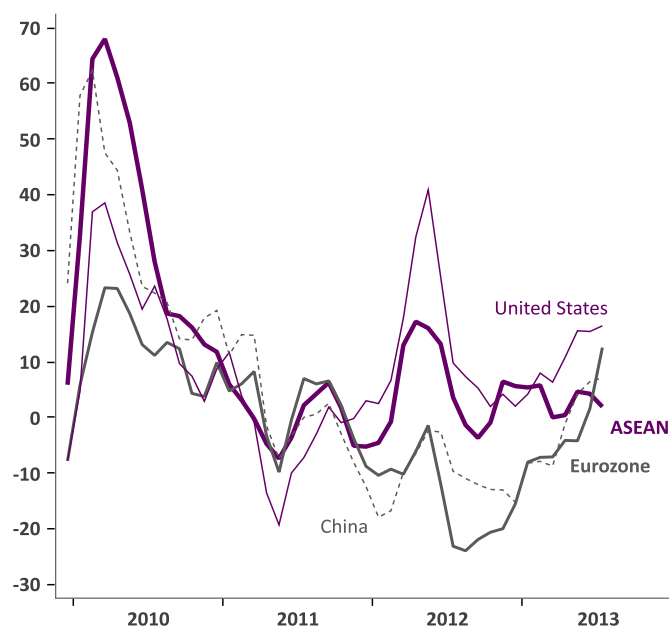
Sources: RichesFlores Research, Macrobond

Japan: Industrial Production and New Orders, YoY in %



Sources: RichesFlores Research, Macrobond

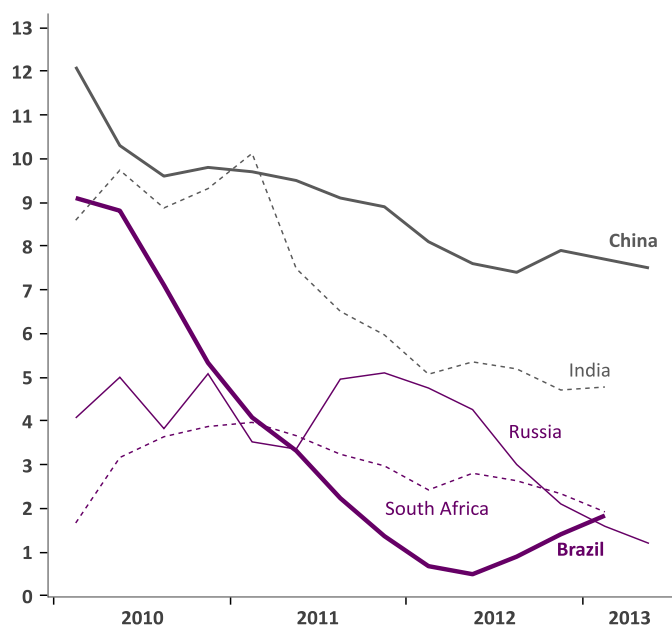
Japan: Exports By Destination, YoY in %



Sources: RichesFlores Research, Macrobond

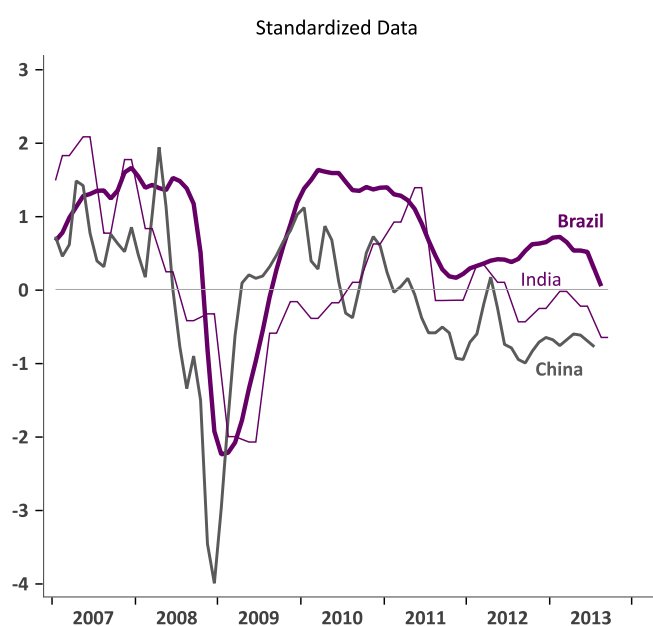
Mounting risk in emerging economies. Although developments in the Chinese economy have caused increasing concern since the liquidity crunch in June, the real trouble today is brewing elsewhere. Steps by the Chinese authorities to stimulate the lending market and support growth, along with the recovery in Europe, should be enough to forestall greater difficulties in the near future. In contrast, things are taking a serious turn for the worse in India, Brazil, and South Africa. Given these countries' inadequate domestic firepower, the current anemic state of world trade can be expected to do increasing damage to their current account.

Real GDP, YoY in %



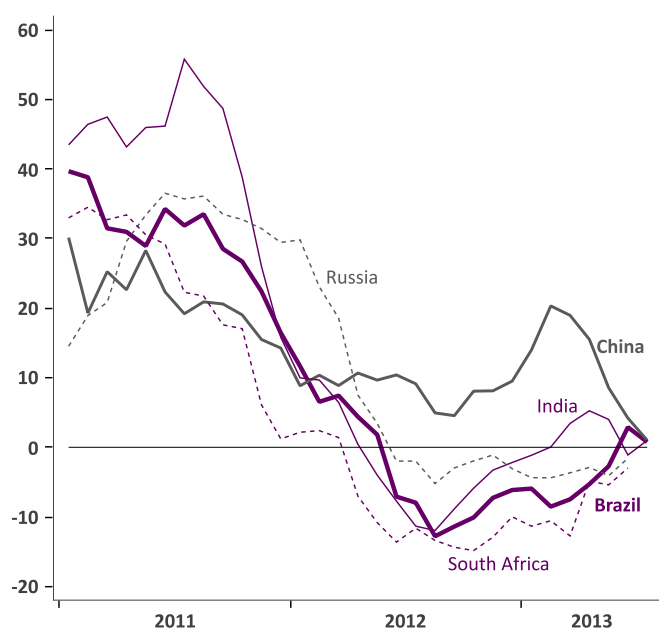
Sources: RichesFlores Research, Macrobond

Emerging Markets: Business Sentiment



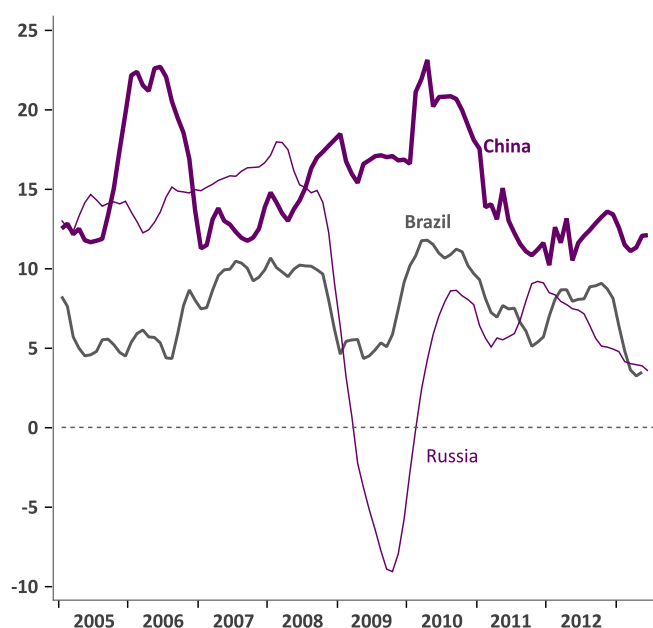
Sources: RichesFlores Research, Macrobond

BRICs: Exports, YoY in %



Sources: RichesFlores Research, Macrobond

Retail Trade Annual Growth, volume (%)

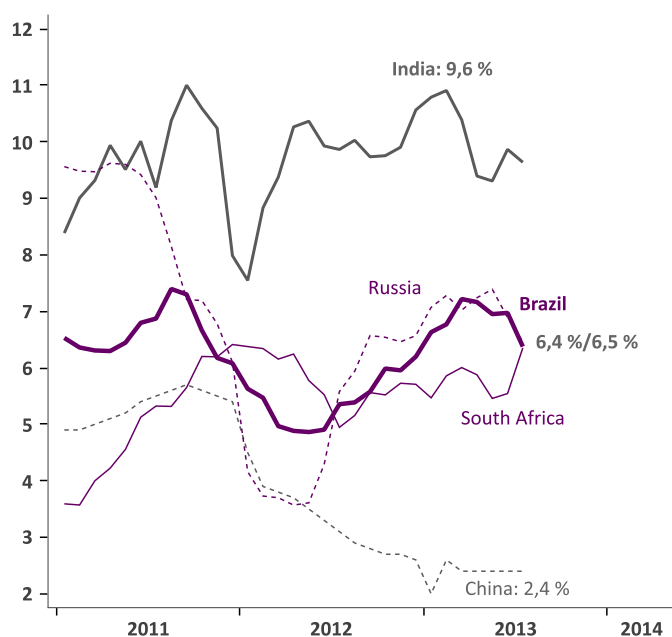


Sources: RichesFlores Research, Macrobond

Forex markets: danger ahead. Just how vulnerable these countries are became apparent as soon as U.S. bond yields began to rise, with strong downward pressure on the most exposed currencies since the early summer.

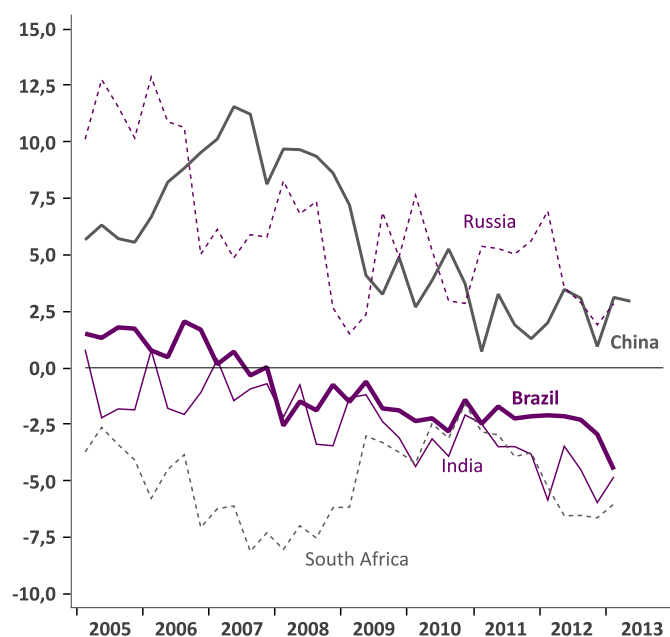
But the truth of the matter is that there is still a lot of room for correction: when you consider Brazil's and South Africa's current account deficits, the real exchange rates of their currencies against the U.S. dollar are still impressively high.

BRICs: Inflation Rate



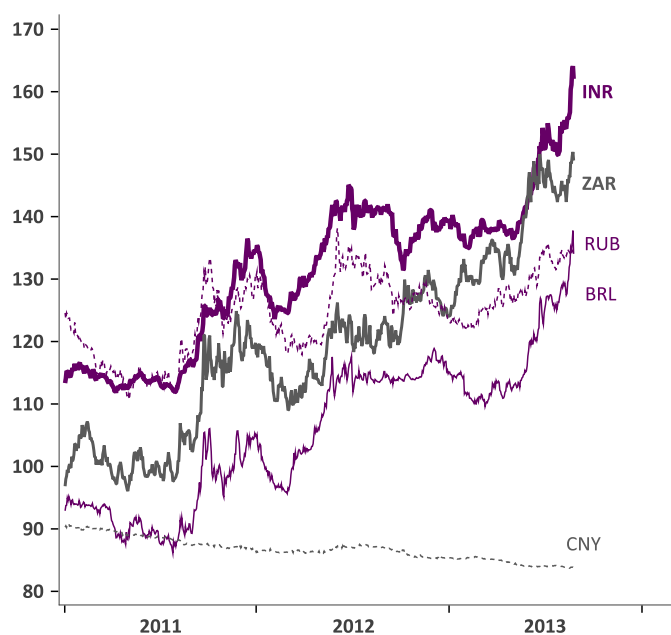
Sources: RichesFlores Research, Macrobond

Current Account in % of GDP



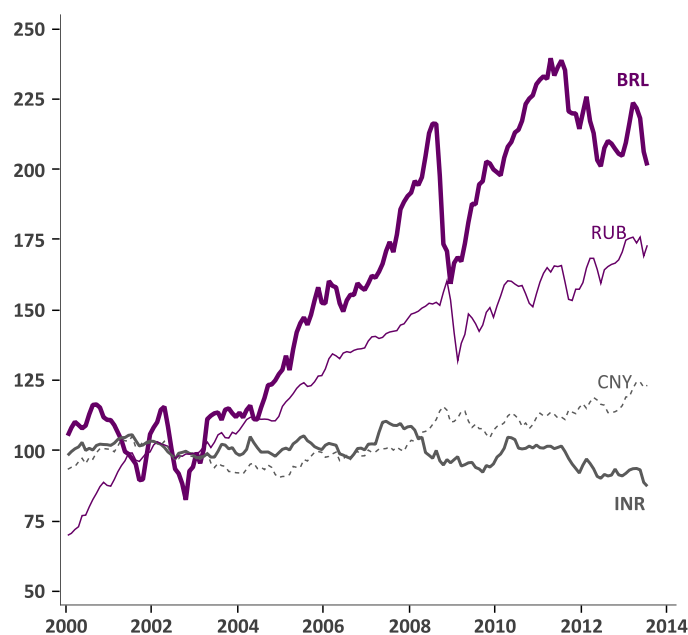
Sources: RichesFlores Research, Macrobond

Exchange Rates Against USD, 01/01/2008=100



Sources: RichesFlores Research, Macrobond

Real Exchange Rates, 2002=100



Sources: RichesFlores Research, Macrobond

RichesFlores Research is an economic and financial research provider. We produce international economic analysis and forecasts, as well as research on broader short-, medium-, and long-term trends in the global economy.

RichesFlores Research is a transparent company, with the databases and information resources we need to remain fully independent and objective. Because RichesFlores Research is not an investment service provider and does not sell financial products, we can offer clients added confidence in the independence and objectivity of our assessments, recommendations, and advice.

This document is provided for information purposes only. It is not and should not be construed as investment advice, or as an offer or solicitation of an offer to buy or sell securities. It contains strictly confidential information intended only for the use of the individual or entity to which it is addressed. This document may not be disclosed to any third party without the express written consent of RichesFlores Research.

This research and its content are the sole property of RichesFlores Research. They may not be reproduced without the express consent of RichesFlores Research and without indication of the source and date thereof.

RichesFlores Research makes no warranty, express or implied, nor assumes any legal liability or responsibility for the accurateness, completeness, or usefulness of the research, conclusions, data, and assessments available on this website.

The content of this website does not constitute a contract and is non-binding. It is not and should not be construed as investment advice or as an offer or solicitation of an offer to buy or sell securities.

Véronique Riches-Flores, contact@richesflores.com