

CURRENT SITUATION · The global economy presses forward with its recovery

The global economy remains on the path of recovery. Taken as a whole, the most recent data point to the economic recovery gradually gaining steam in the last part of 2013. This endorses our global macroeconomic scenario in which we predict that growth will be 2.9% in 2013, afterwards speeding up to 3.7% for 2014 as a whole. This last figure is notable as it is higher than the average growth for the last few decades (3.4% during the period 1980-2013). In spite of this trend, the recovery is not without risk, such as fiscal uncertainty and monetary normalisation in the United States, the medium-term results of Japan's policy to boost demand and the correction of macroeconomic imbalances in emerging countries such as India or Turkey.

UNITED STATES

Growth in 2013 Q3 comes as a pleasant surprise but there are doubts concerning its composition. The USA's GDP grew by 2.8% in annualised quarter-on-quarter terms, more than expected and higher than the figure recorded in Q2 (2.5%). Although the aggregate figure was satisfactory, the breakdown was not so pleasing. As mentioned in the Focus «The USA: acceleration in 2014 depends on investment», the excessive weight of such a volatile component as the accumulation of stock and the modest performance by private consumption and investment generated, at the time the figures were published, certain doubts regarding the rate of growth for the final part of 2013.

The most recent figures dispel fears of a weak Q4. Both the composition of GDP in Q3 and the fact that October saw the partial shutdown of federal public services (the equivalent to 1/6 of federal spending, affecting around 800,000 public employees for seventeen calendar days) led to doubts regarding in what shape the USA would end 2013. However, as different economic indicators have been announced, such uncertainty has gradually eased. Business activity continued to rise in October and November. The ISM for manufacturing picked up in October to 56.4 points, above the 56.2 points reached in September. Similarly satisfactory was the trend in November's PMI, which posted a rise of 54.3 points. All this suggests that the industrial sector, which amplifies the cyclical movements of the economy as a whole, has speeded up in Q4. Tertiary activity followed similar lines: in October the ISM for services stood at 55.4 points (54.4 points in September). House prices also performed well in September, confirming that the improvement in real estate is continuing. Even the slight drop in consumer confidence in October and November has been offset by the good trend in retail and consumer goods in October.

World economy: PMI activity indicators (manufacturing)

Country	Latest figure ^(*)	July 2013
United States ^(*)	▲	▲
Japan	▲	▼
China ^(*)	▼	▼
South Korea	▲	▼
Taiwan	▲	▼
Vietnam	▶	▲
India	▶	▼
Indonesia	▲	▼
Brazil	▲	▼
Mexico	▲	▼
Russia	▲	▼
Turkey	▼	▼
Poland	▲	▲
Czech Republic	▲	▲

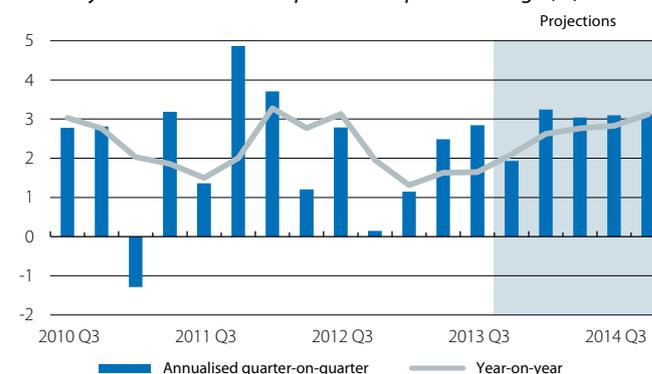
▲ > 50, recent trend: increase ▲ < 50, recent trend: increase
 ▼ > 50, recent trend: decrease ▼ < 50, recent trend: decrease
 ▶ > 50, recent trend: unchanged ▶ < 50, recent trend: unchanged

Note: (*) The Latest figure refers to October 2013 except for the United States and China, which is for November 2013.

Source: "la Caixa" Research, based on data from Markit Economics.

USA: GDP

Year-on-year and annualised quarter-on-quarter change (%)



Source: "la Caixa" Research, based on data from the Bureau of Economic Analysis.

USA: activity indicators

(Index)



Source: "la Caixa" Research, based on ISM data.

Employment figures come as a nice surprise. This is perhaps the element that has most helped to diminish fears of the impact of the shutdown. In October, the month of the government shutdown, 204,000 jobs were created, clearly more than had been expected. The figures for August and September were also revised upwards. October's figures show no appreciable impact from the shutdown: federal public employment fell moderately (but not by much more than its recent trend), while private employment grew appreciably. This positive figure, which confirms that employment is continuing to recover, must not make us forget that the labour market is still a long way from getting back to normal. In this respect it should be noted that, in October, the unemployment rate increased to 7.3% (0.1 percentage points more than in September) and the participation rate stood at 58.3% (58.6% in September). Beyond last month's level, it must be said that the participation rate has been anchored in this zone since the end of 2009, casting some shadow over the US labour market.

The Fed might start tapering at the end of 2014 Q1.

For its part inflation is still contained. In October the CPI stood at 1.0% year-on-year, slightly lower than September's rate of 1.2%. The core CPI, which excludes energy and foods, rose by 1.7% year-on-year in October, a similarly moderate figure. Given this situation, characterised by a recovery that is continuing, inflation without too much tension and a labour market that is gradually improving, the Fed might opt to start tapering its bond purchases at the end of 2014 Q1. Nonetheless, we do not think that the withdrawal of liquidity will be intense until the labour market gets back to normal.

JAPAN

GDP disappoints in Q3. Growth in Japan (1.9% annualised quarter-on-quarter) was lower than expected and with a relatively unsatisfactory composition (see the Focus «Abenomics, year one»). What stands out is the decline in exports, one of the traditional pillars of Japanese growth. Moreover, both private consumption and investment slowed down their respective growth.

The foreign sector still refuses to boost growth. Although the international trade figures for October show a certain recovery in exports, higher than that of imports, this is mainly due to the fact that September was an atypically bad month in terms of sales abroad and also because the Japanese energy bill fell in October. In terms of percentage of GDP, October's balance of trade was almost identical to Q2.

The end of deflation is in sight. On average, the CPI grew by 0.9% year-on-year in Q3, its first positive figure since 2012 Q2. October's figure maintains the rate of growth in the zone at 1% year-on-year.

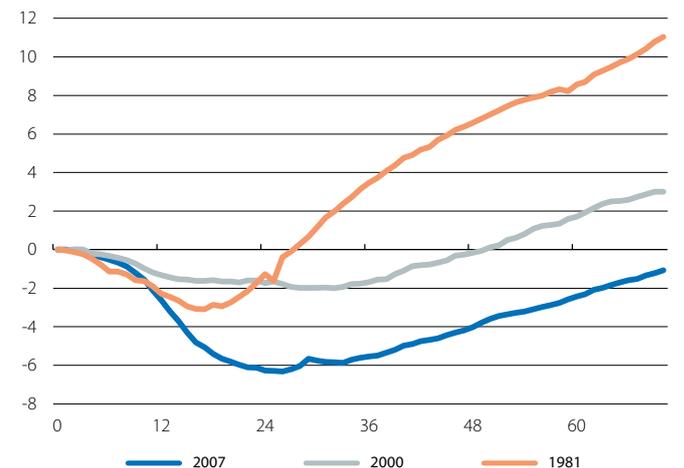
USA: employment



Note: Participation rate defined as the proportion of employed people to the working-age population.
Source: "la Caixa" Research, based on data from the Department of Labor.

USA: recovery in employment

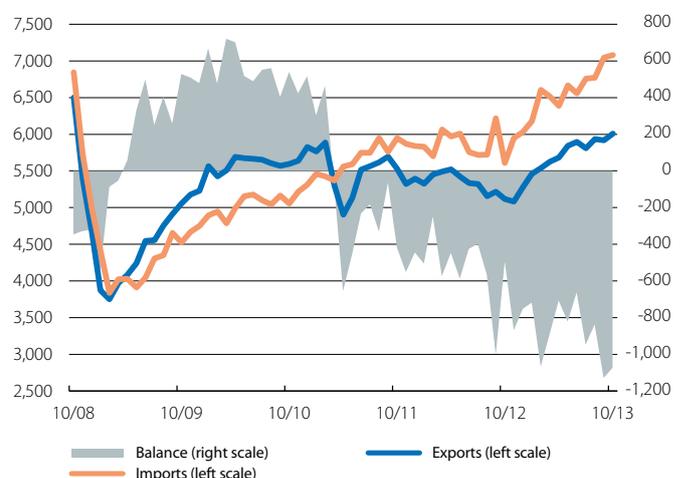
Compared with employment level at start of crisis (%)



Source: "la Caixa" based on data from the Bureau of Labor Statistics.

Japan: trade balance

Monthly figures (billion yen)



Source: "la Caixa" Research, based on data from the Communication Department.

EMERGING ECONOMIES

China builds up steam and its desire to reform. The latest activity figures (industrial production, retail and consumer goods and exports, in particular) confirm that the economy is getting back its dynamism. However, the most significant news comes from the area of reforms. At the Third Plenary Session of the CPC Central Committee, an important date when strategic decisions are usually taken, different lines of action were announced that, should they be completed, will lead to private initiative becoming more important. Of note were the reduction in some subsidies benefitting state firms, administrative and fiscal reforms and a greater degree of liberalisation. This last area includes opening up further to foreign investment, liberalising the financial sector (which should also make the exchange rate regime more flexible) and the relaxation of some aspects in the rules on internal migration and the «single child» policy.

Albeit on a different scale, similar developments can be seen in Mexico. In this country the latest indicators confirm that the economy is moving away from its bad patch in Q2. In Q3 GDP grew by 0.8% quarter-on-quarter, in contrast with the 0.5% drop of the preceding quarter. We believe the economy will continue to pick up in the medium term, boosted by the US recovery, a country that absorbs around 80% of Mexico's exports. Given this situation of economic revival, and taking advantage of the existing parliamentary consensus, fiscal reform has been approved. Although the final text adopted is less ambitious than had been hoped, this will admittedly help towards reducing the importance of Pemex for public revenue by raising certain excise duties, adjustments in income tax and by eliminating some exemptions for VAT and direct taxes. News is expected on the country's energy reform in the next few weeks.

Brazil and Russia speed up their activity. In Brazil, the recent activity rate has been positive. After strong acceleration in growth in Q2, up to 3.3% year-on-year, October's indicators (especially consumer confidence) tend to confirm that GDP will continue to grow at a similar pace. In the case of Russia, the preliminary figure for GDP in Q3 came as an unpleasant surprise, only growing by 1.2% year-on-year and unchanged from Q2. Nevertheless, the most recent leading indicators such as those from the OECD point to activity starting to rally in Q4. For its part, India grew by a dynamic 4.8% year-on-year in Q3, boosted by the agricultural sector and the strength of its business services.

China: economic outlook indicators

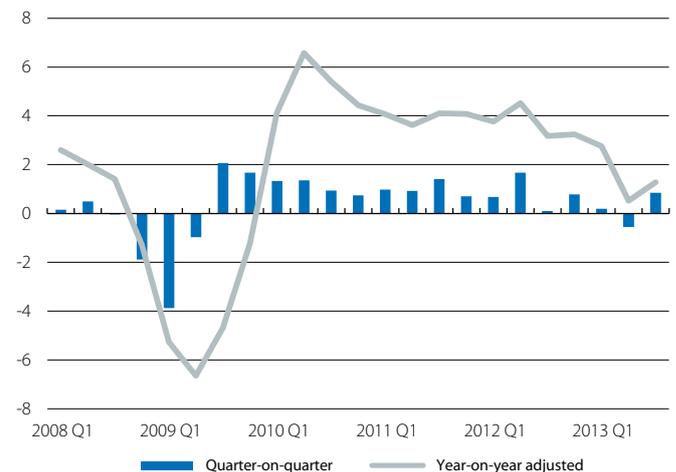
Year-on-year change (%)

	Latest figure	Previous period	2012
GDP	7.8	7.5	7.7
Industrial production	10.3	10.2	10
Electricity production	8.1	5.3	4.3
Retail sales	13.3	13.3	14.3
PMI manuf. (official)	51.4	51.1	50.8
Exports	5.6	-0.3	8.0
Imports	7.6	7.4	4.3
Investment ^(*)	20.1	20.2	20.6
Bank credit	14.3	14.1	15.7
Consumer prices	3.2	3.1	2.7
Real estate prices ^(**)	9.5	8.6	0.0

Notes: (*) Cumulative investment in urban fixed capital. (**) Average price for new houses in 100 cities. Source: "la Caixa" Research, based on data from Thomson Reuters Datastream and Markit.

Mexico: GDP

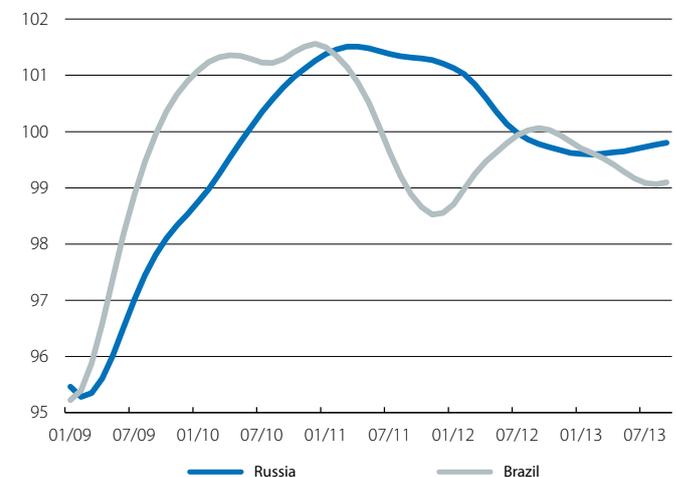
Year-on-year and quarter-on-quarter change (%)



Source: "la Caixa" Research, based on data from Thomson Reuters Datastream.

Brazil and Russia: Leading activity indicators

(Index)



Source: "la Caixa" Research, based on OECD data.