



Eco'Charts

18 December 2014

Group Economic Research

Summary of macroeconomic forecasts

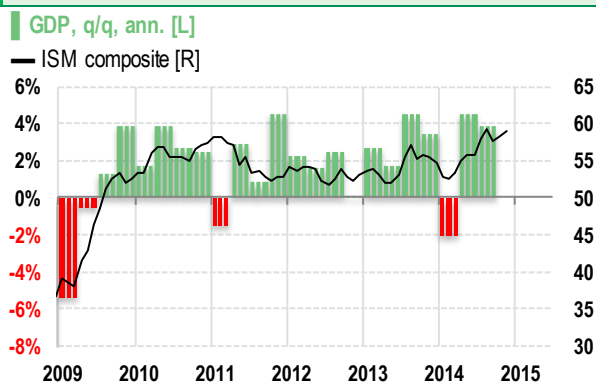
	GDP growth, %			Inflation rate, %			Curr. accounts, % GDP		
	2014 e	2015 e	2016 e	2014 e	2015 e	2016 e	2014 e	2015 e	2016 e
OECD	1.8	2.3	2.3	1.4	0.7	1.8			
United States	2.3	3.3	2.8	1.6	0.8	2.2	-2.3	-2.5	-2.3
Japan	0.3	0.4	0.8	2.8	1.1	2.5	0.3	0.6	-0.1
Euro Area	0.8	1.1	1.8	0.4	0.2	1.0	2.5	2.8	2.9
Germany	1.4	1.3	2.0	0.8	0.3	1.4	7.1	7.2	6.8
France	0.4	0.9	1.5	0.6	0.3	1.1	-1.3	-0.8	-1.0
Italy	-0.4	0.5	1.0	0.2	0.0	0.7	1.8	2.0	2.1
United Kingdom	3.0	2.8	2.2	1.5	1.0	2.0	-4.9	-4.6	-3.6
Emerging	4.4	4.4	5.3	5.3	5.3	5.4			
China	7.3	6.8	6.5	2.0	1.9	2.6	2.6	2.8	2.9
India	5.1	6.1	6.9	9.5	7.7	6.5	-1.7	-1.8	-2.6
Brazil	0.0	0.0	2.0	6.3	6.8	6.7	-3.7	-2.8	-2.6
Russia	0.5	-1.5	0.5	7.6	8.9	5.6	3.0	2.9	3.9
World	3.1	3.3	3.8	3.4	3.0	3.7			

e : estimates and forecasts BNP Paribas Economic Research, Paris

In the US, this will be the fifth year of recovery in 2014, time for monetary policy to become less accommodative. The “quantitative easing” will end by Oct. 2014 and the first rate hike will come by mid-2015 ■ Fiscal brakes are coming off owing to improved receipts, the federal budget deficit is shrinking rapidly ■ Political risk is also abating as far as it concerns the process of increasing the debt ceiling ■ The housing market will do well : low inventories and (still) low real interest rates, upswing in housing prices, optimistic surveys... ■ Corporates are still largely self-financing their capital spending (high margins). They are hiring staff and the unemployment rate is likely to fall under 6% by the beginning of 2015.

The euro zone is at risk ■ The recovery in the Euro area is uneven and has proved deceptive so far ■ The war in Ukraine and escalating tensions between EU and Russia is already putting a drag on growth ■ Other developments like the fall in oil prices, the depreciation of the euro, contracting spreads, better loans surveys, strong US demand are supportive anyway ■ Euro area GDP growth will be close to 1% annual path in 2015 ■ Inflation rate will be virtually near zero.

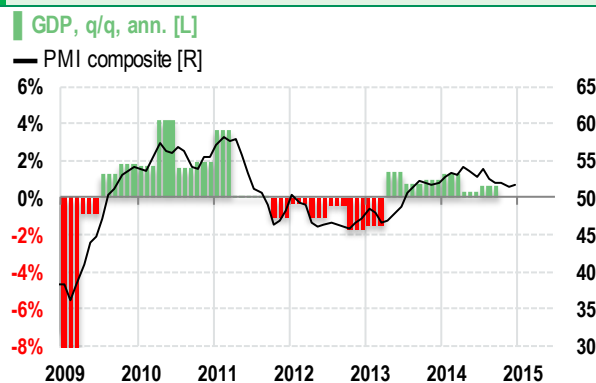
1 US GDP growth and composite ISM



Source : Thomson Datastream, BNP Paribas

The US economic activity bounced back in 14'Q2, retracing from it's winter slump. The trend in GDP is keeping healthy in Q3

2 EMU GDP growth and composite PMI



Source : Thomson Datastream, BNP Paribas

GDP growth, especially investment and exports, have disappointed in the Euro area, due to geopolitical risk.



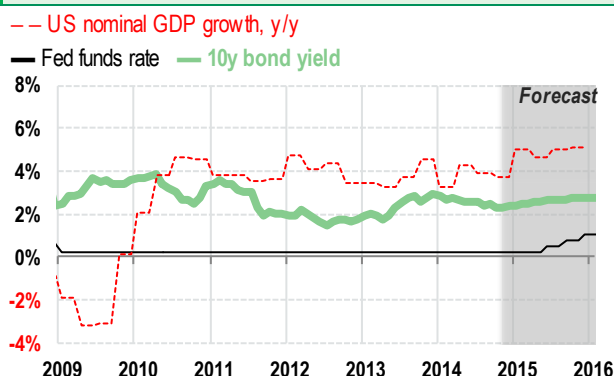
Summary of financial forecasts

Interest rates		2014				2015				2013	2014 e	2015 e
End of period		Q1	Q2	Q3	Q4 e	Q1 e	Q2 e	Q3 e	Q4 e			
US	Fed Funds	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	0.25	0.25	1.00
	T-Notes 10y	2.73	2.52	2.51	2.35	2.50	2.65	2.70	2.75	3.01	2.35	2.75
EMU	ECB "refi" rate	0.25	0.15	0.05	0.05	0.05	0.05	0.05	0.05	0.25	0.05	0.05
	Bund 10y	1.57	1.25	0.90	0.85	1.20	1.20	1.10	1.00	1.94	0.85	1.00
	OAT 10y	2.09	1.70	1.29	1.15	1.45	1.45	1.35	1.30	2.57	1.15	1.30
UK	BOE Rate	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	0.50	0.50	1.25
	Gilts 10y	2.74	2.67	2.43	2.15	2.25	2.35	2.45	2.50	3.03	2.15	2.50

Exchange rates		2014				2015				2013	2014 e	2015 e
End of period		Q1	Q2	Q3	Q4 e	Q1 e	Q2 e	Q3 e	Q4 e			
USD	EUR / USD	1.38	1.37	1.26	1.22	1.20	1.18	1.16	1.15	1.38	1.22	1.15
	USD / JPY	103	101	110	116	118	122	125	128	105	116	128
EUR	EUR / GBP	0.83	0.80	0.78	0.77	0.75	0.74	0.73	0.72	0.83	0.77	0.72
	EUR / CHF	1.22	1.21	1.21	1.22	1.23	1.24	1.24	1.25	1.23	1.22	1.25
	EUR / JPY	142	139	139	142	142	144	145	147	145	142	147

e: Estimates & forecasts BNP Paribas, Economic Research, Paris

3 US, interest rates vs nominal GDP growth



Source: Thomson Datastream, BNP Paribas

The Fed will end with the "QE" before raising key rates, somewhere by mid-2015. We see yields on a slightly upward trend (no more Fed purchases, inflation a notch higher...)

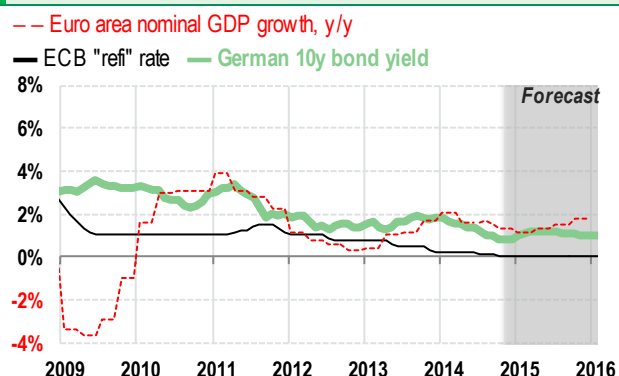
5 Euro Area, spreads of Italy and Spain vs Germany



Source: Thomson Datastream, BNP Paribas

Tensions over sovereign debt spreads continue to abate in our scenario, helped by the implementation of the TLTRO and despite uncertainties (higher geopolitical risks, etc.)

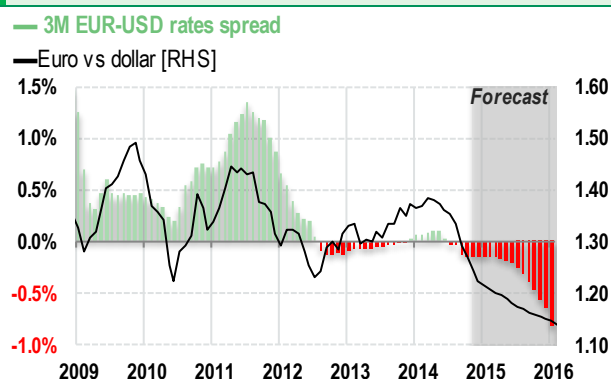
4 Euro area, interest rates vs nominal GDP growth



Source: Thomson Datastream, BNP Paribas

Looking at key rates, the ECB has delivered all the work and even more. The *refi* is now virtually null (0.05%), so that the TLTRO will be charged at 0.15%. No change before mid-2017.

6 Euro area, euro-dollar vs interest rates differential



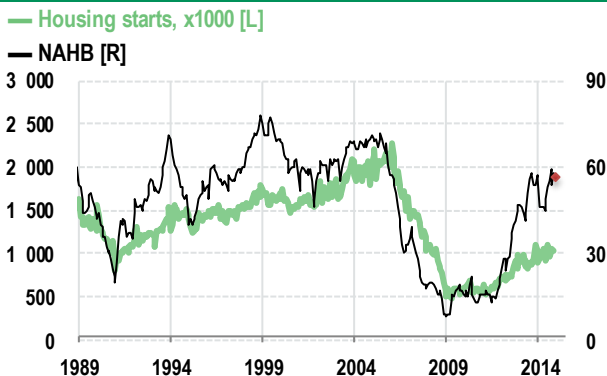
Source: Thomson Datastream, BNP Paribas

The differential in short term interest rates between the US and the Eurozone has turned negative and is likely to widen in the future. This would normally cause the euro to weaken ...



The US economy

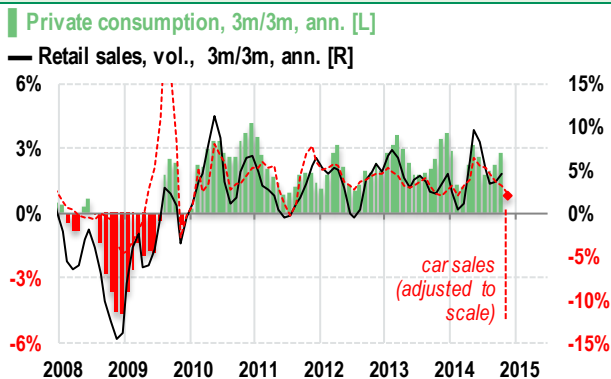
7 US, housing market, strong recovery ahead



Source : Thomson Datastream, BNP Paribas

Weather conditions depressed home builder surveys in January 2014. However, the NAHB index still suggests housing starts will continue to gain momentum.

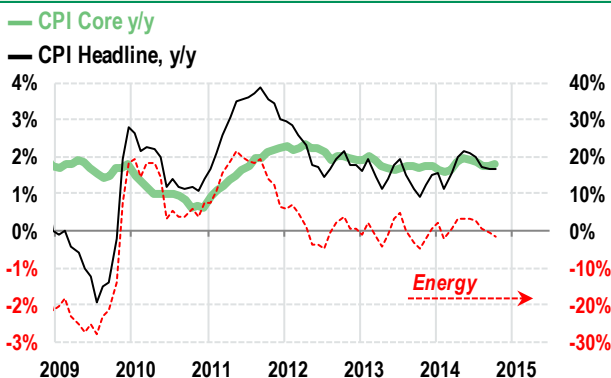
9 US, retail sales not booming, but robust



Source : Thomson Datastream, BNP Paribas

Private consumption (read the left scale) is growing at a rather stable path, close to 2% annually. Not particularly impressive but compatible with a deleveraging process.

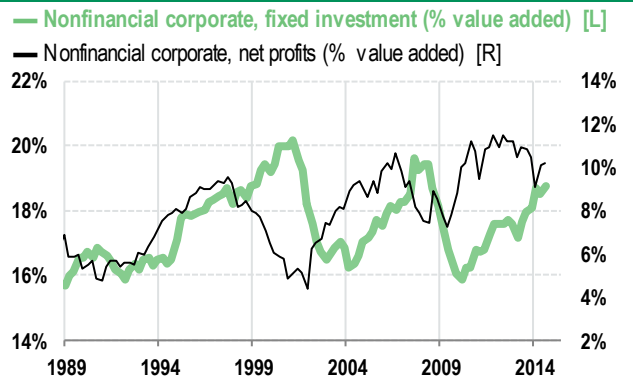
11 US, no concern for inflation... neither deflation



Source : Thomson Datastream, BNP Paribas

Energy is largely responsible for the decrease in inflation rate. Core inflation (excluding food and energy) is rather stable, close to 2% annually, the official target.

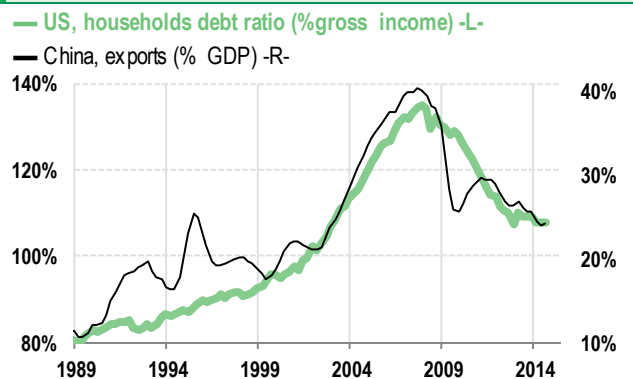
8 US, investment cycle vs corporate profits



Source : Thomson Datastream, BNP Paribas

Corporate investment continues to recover, in the wake of high profit margins

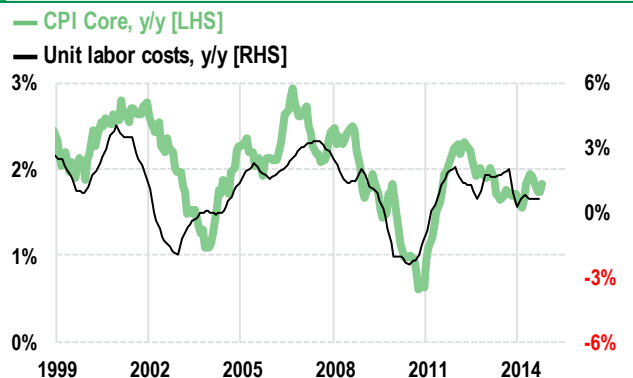
10 US deleveraging, a concern for China?



Source : Thomson Datastream, BNP Paribas

US households are still reducing their debt to income ratio, a process that weighs on Chinese exports.

12 US, no concern for inflation... neither deflation



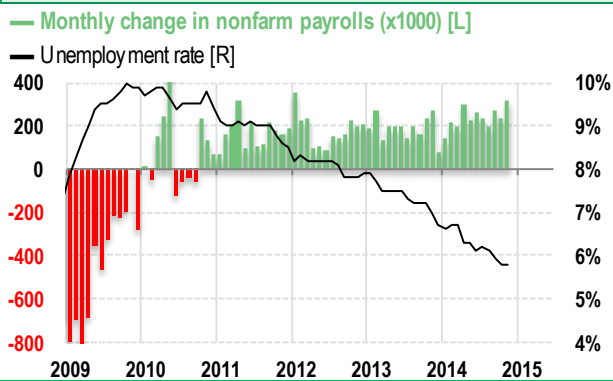
Source : Thomson Datastream, BNP Paribas

No particular concern on wage front. However, at 5.9% in sept. the unemployment rate is moving closer to the NAIRU as computed by the Fed (5.5%).



The US economy

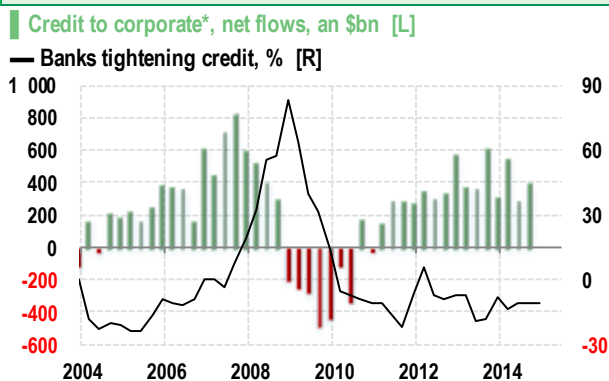
13 US, non-farm payrolls vs unemployment rate



Source : Thomson Datastream, BNP Paribas

Nonfarm payrolls have come stronger recently. The trend is now close to +200K jobs (net) per month and will allow unemployment rate to continue to fall.

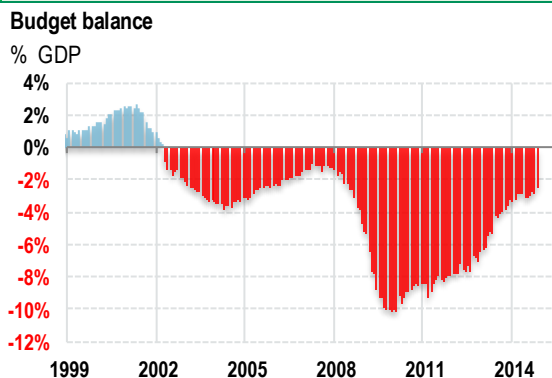
15 US, corporate credit, back to pre-crisis level



Source : Thomson Datastream, BNP Paribas

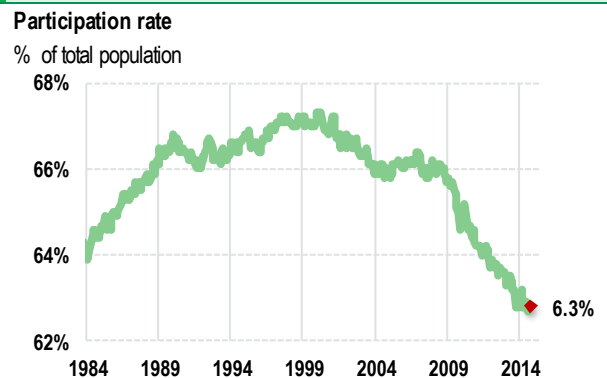
Credit conditions are loose and flows to corporate (loans & bond issues) are back to their pre-crisis level...

17 US, narrowing budget deficit



On the fiscal front, brakes are coming off owing to improved receipts. The federal budget deficit is shrinking rapidly.

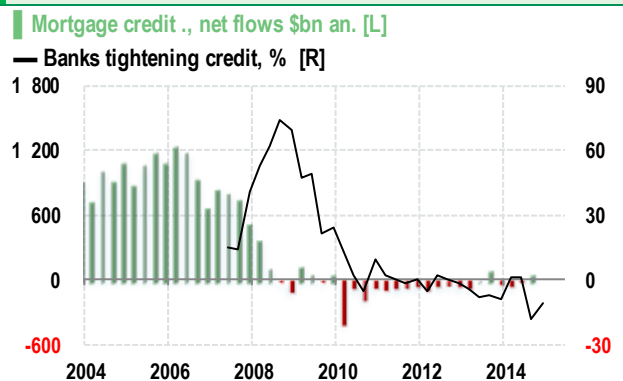
14 US, labour force participation rate



Source : Thomson Datastream, BNP Paribas

Part of the fall in the unemployment rate is explained by the historical low rate of labour force participation (workers getting older or simply discouraged don't apply for a job...)

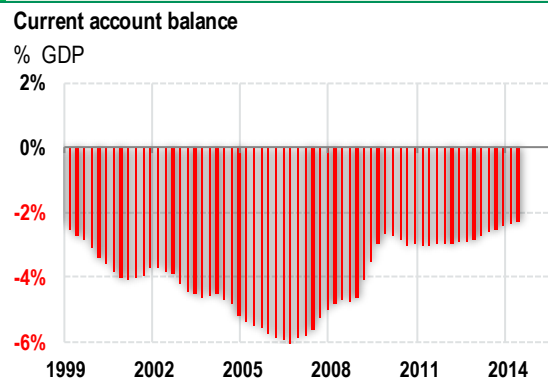
16 US, mortgage loans, far from pre-crisis level



Source : Thomson Datastream, BNP Paribas

... which is not the case for mortgage loans. They have recently stopped to contract, after a five year period of slump. But lending activity for house purchases is still very weak

18 US, narrowing current account deficit

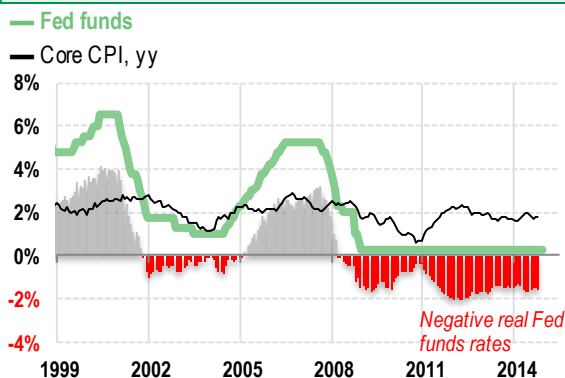


Current account deficit is closing at a time when the US economy is recovering, a rather unusual story.



The US economy

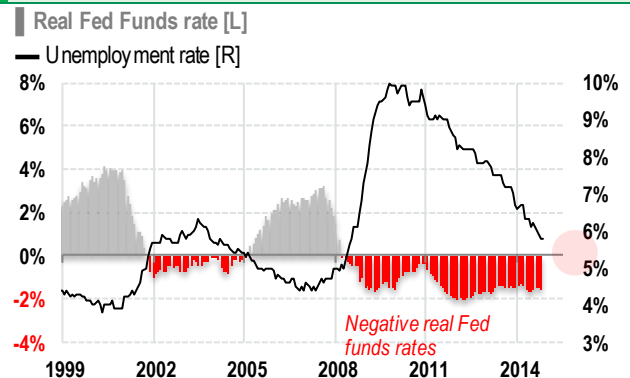
19 US, Fed funds rate and inflation



Source : Thomson Datastream, BNP Paribas

Fed funds rates have been negative in real terms for now six years.

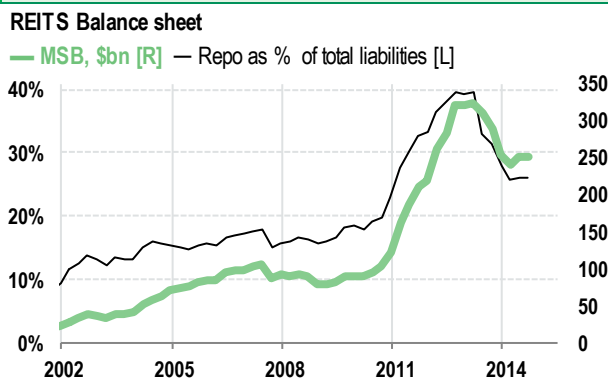
20 US, real Fed funds rate and unemployment rate



Source : Thomson Datastream, BNP Paribas

A 5% to 5.5% level in unemployment rate is the limit where real Fed fund rates start to be positive. An implicit target for the Fed ?

21 US, real estate investment trusts balance sheet



Source : Thomson Datastream, IMF, BNP Paribas

Real estate investment trusts (REITS) use repo markets as a source of funding for longer-term, less-liquid assets like RMBS. Some are vulnerable to contagion risks / asset fire sales [IMF].

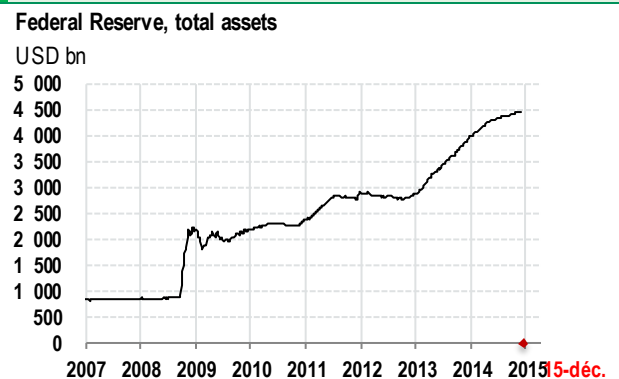
23 US, dollar effective exchange rates



Source : Thomson Datastream, IMF, BNP Paribas

The dollar continues to be cheap, looking at the real effective exchange rate (trade weighted & adjusted for inflation)

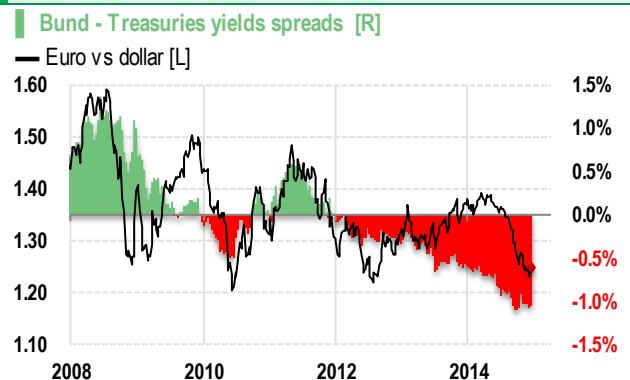
22 US, Federal reserve balance sheet



Source : Thomson Datastream, BNP Paribas

Federal Reserve's total assets increased more six times since 2007 and now account for 25% of GDP. The QE will end by oct. 2014 and the Fed is expected to hike rates by mid-2015.

24 US, dollar vs interest rates differential*



Source : Thomson Datastream, BNP Paribas

Yields spreads used to be a good proxy for the euro dollar exchange rate...

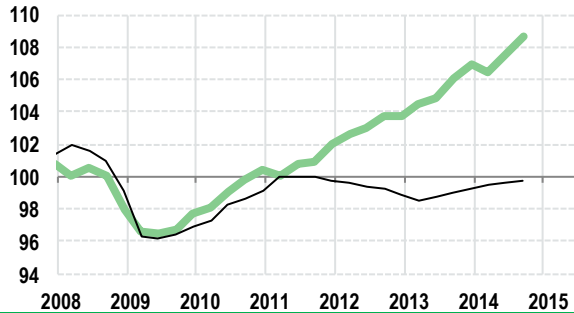


The Euro area economy

25 Compared level of GDP, Euro area vs US

GDP, vol. (Q1 2011= 100)

— US — EMU



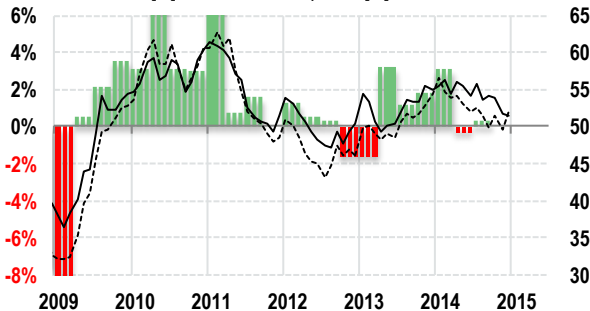
Source : Thomson Datastream, BNP Paribas

The recovery in the Euro area is very poor, after two years of recession. Since Spring 2011 (start of the Greek's debt restructuring) the shortfall in activity is huge compared to the US

27 Germany, GDP growth vs business surveys

GDP, q/q, ann. [L]

--- PMI Manuf. [R] — PMI composite [R]



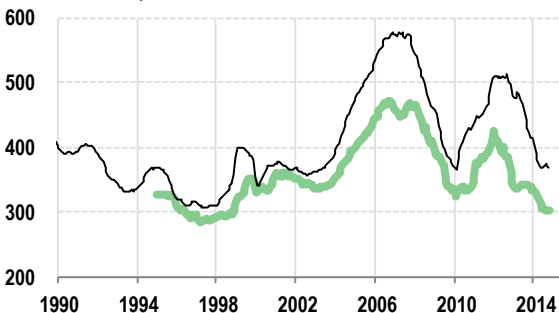
Source : Thomson Datastream, BNP Paribas

The German economy stalled during the summer. A pay-back in the construction sector as well as the effects of the Russian crisis dampened investment and activity. 2014 Q4 is for a poor start...

29 France, fall in construction activity

Housing permits and starts

12 m cumulated, x 1000



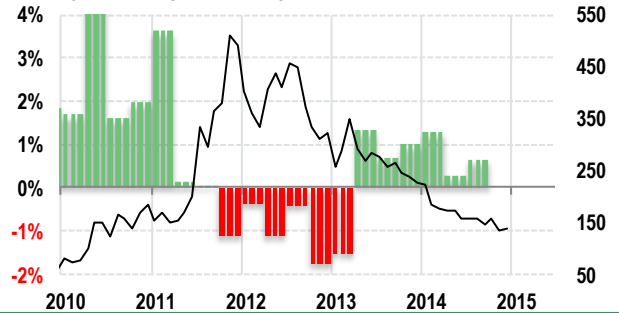
Source : Thomson Datastream, BNP Paribas

Part of the French poor performance in Europe is due to the housing market, trending at all-time low. According to the INSEE, the fall in the property market drags 0.4pp to growth in 2014.

26 Euro area, GDP growth vs Italian Spread

EMU, GDP growth, q/q ann. [L]

— Italy sovereign spread (10y. Vs bund) [R]



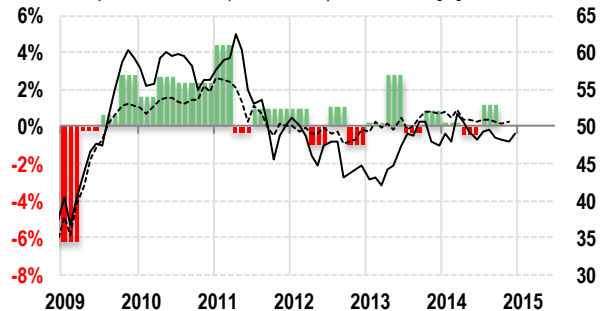
Source : Thomson Datastream, BNP Paribas

Borrowing costs no longer deviate so wildly within the euro zone—a pre-requisite for any recovery.

28 France, GDP Growth vs business surveys

GDP, q/q, ann. [L]

--- Composite indicator (BdF&Insee) — PMI [R]



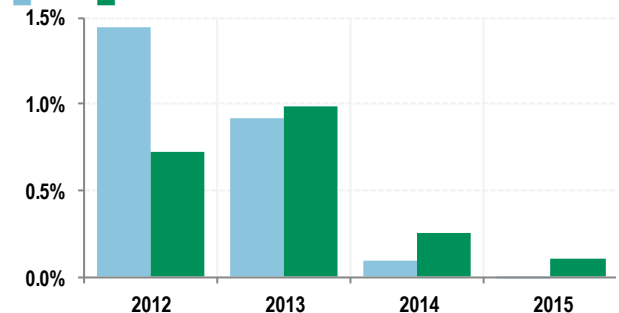
Source : Thomson Datastream, BNP Paribas

Flat... with not any upturn in the pipe. France will exhibit a modest 0.4% growth in 2014 and will miss its budget deficit target both in 2014 and 2015

30 France, budgetary effort

Change in Gen. Govt. primary structural deficit, % GDP

■ EMU ■ France



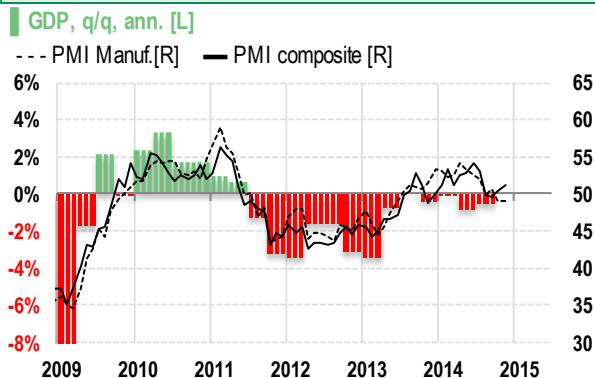
Source : Thomson Datastream, European Commission BNP Paribas

The fiscal effort (the reduction in structural deficit) has come higher in France than in the rest of the Euro area since 2013. But the way is will be prolonged through 2015 is an open question



The Euro area economy

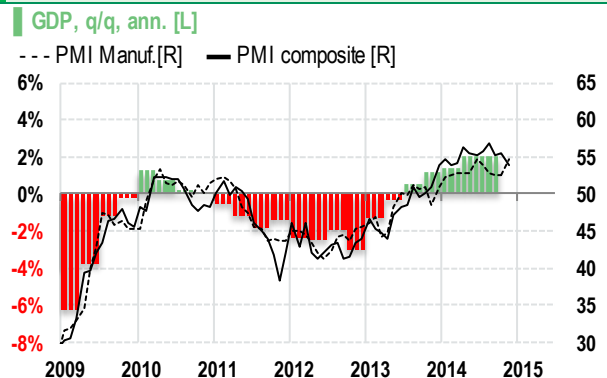
31 Italy, GDP growth vs business surveys



Source : Thomson Datastream, BNP Paribas

Rather deceptive. The Eurozone third largest economy keeps in recession, although surveys were promising an upturn.

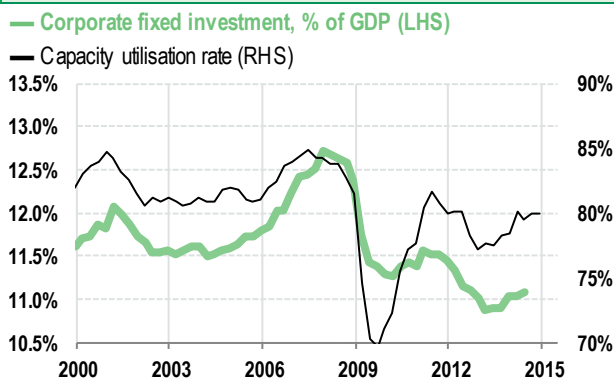
32 Spain, GDP growth vs business surveys



Source : Thomson Datastream, BNP Paribas

Spain keeps on a good track. GDP was up 1.5% annually in 2014 H1, one of the best performance in Euro area. The business climate index keeps rather good...

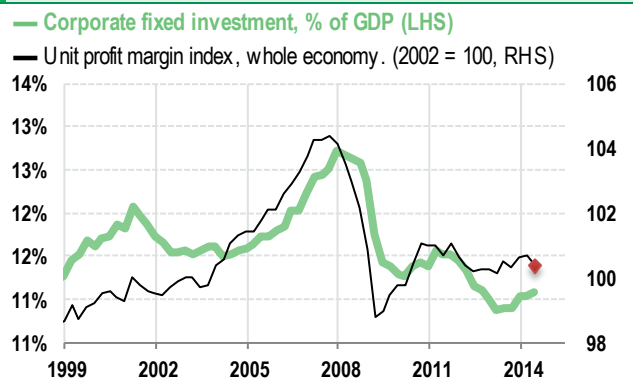
33 Euro area, fixed investment vs cap. utilization rate



Source : Thomson Datastream, BNP Paribas

Higher capacity utilisation rates...

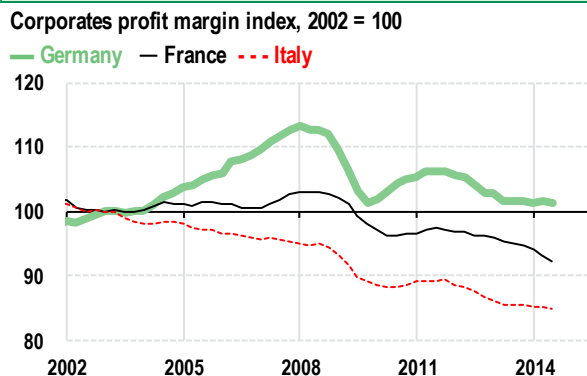
34 Euro area, corporate fixed investment vs profits



Source : Thomson Datastream, BNP Paribas

... and first sign of margin recovery will prompt companies investment to pick up, albeit from very low levels.

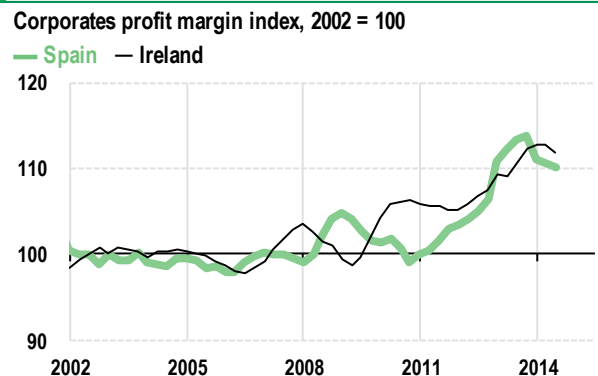
35 Euro area, trend in corporate profits



Source : Thomson Datastream, BNP Paribas

Corporate profits at a cyclical low in Germany, historical low in France and Italy.

36 Euro area, trend in corporate profits



Source : Thomson Datastream, BNP Paribas

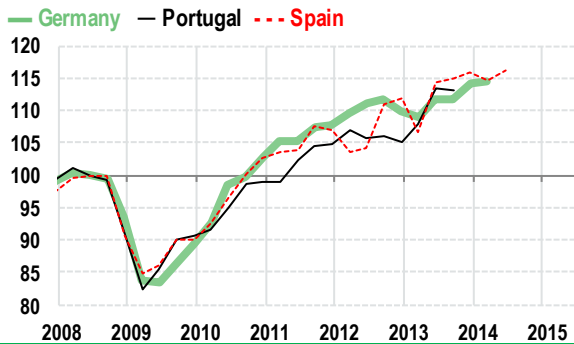
Corporate profits at historical high in Spain, Portugal and Ireland



The Euro area economy

37 Euro area, trend in exports for some countries

Exports, 2008 = 100 (vol.)

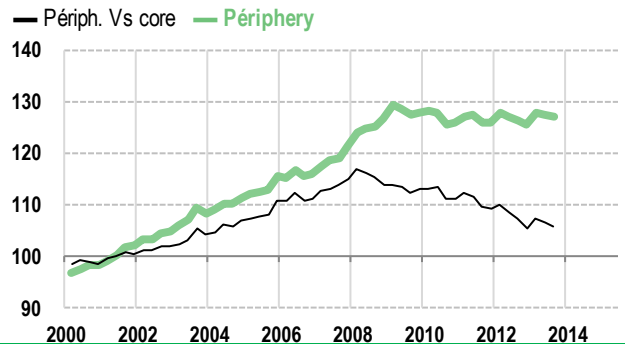


Source : Thomson Datastream, BNP Paribas

Spain and Portugal : an export-led recovery, that now spreads on domestic demand, mainly companies investment

38 Euro area, the periphery is getting more and more competitive

Unit labor costs (2001 = 100)



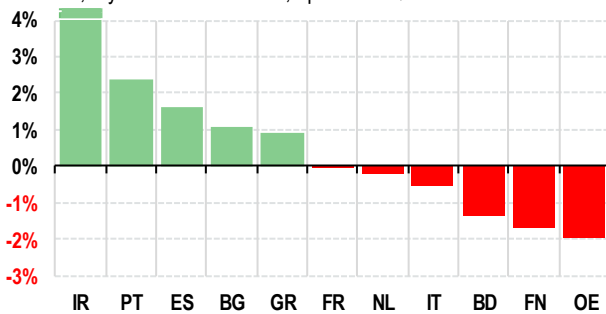
Source : Thomson Datastream, BNP Paribas

"Internal devaluations" led to a significant reduction in unit labour costs at the periphery of the EMU (southern countries + Ireland) :

39 EMU, distribution of foreign direct investments

Foreing direct investments

% GDP, 2 year cumulated flows, upt to 2013Q4

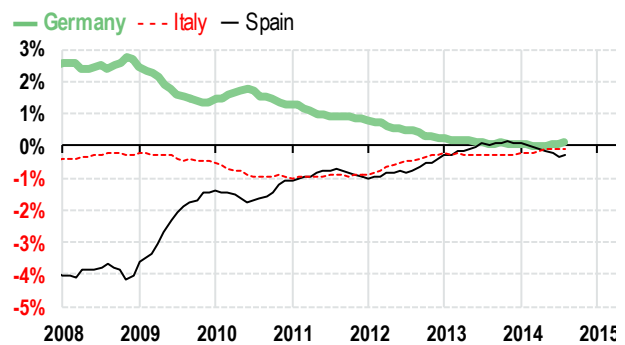


Source : Thomson Datastream, BNP Paribas

... It also allowed foreign direct investments to come back.

40 EMU, closing imbalances

Intra EMU trade balances, % GDP



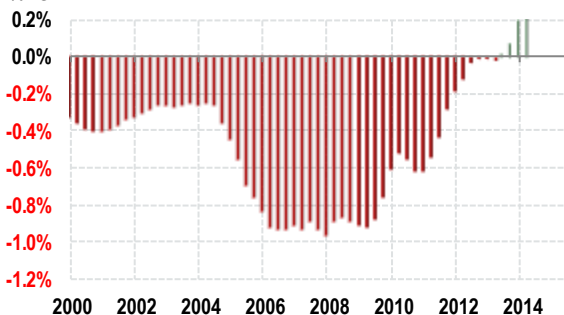
Source : Thomson Datastream, BNP Paribas

Intra-EMU imbalances have been reduced or closed, as a result of the global deleveraging process. For the first times since the launch of the euro, Germany gets no trade surpluses inside EMU

41 Germany, current account balance with China

German current account with China

% GDP



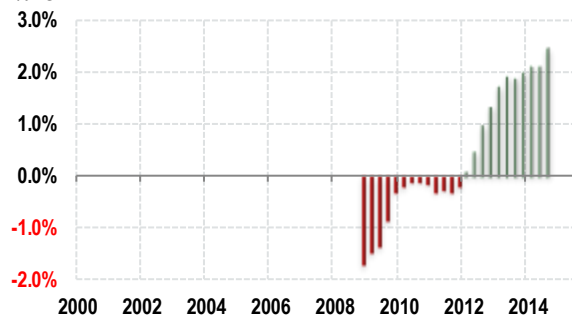
Source : Thomson Datastream, BNP Paribas

Part the German surpluses have shifted from EMU to emerging countries. Trade in goods and services with China is now generating positive revenues

42 EMU, current account balance

Current account balance

% GDP



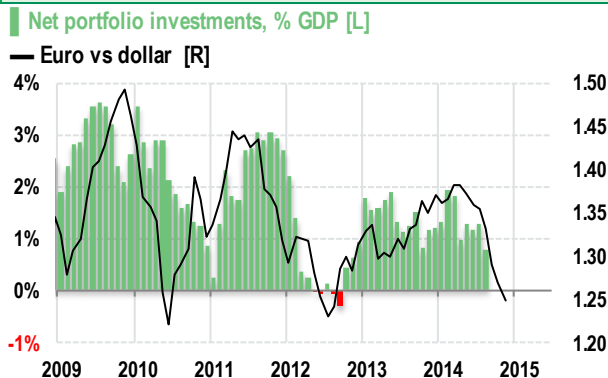
Source : Thomson Datastream, BNP Paribas

The largest current account surplus ever seen...



The Euro area economy

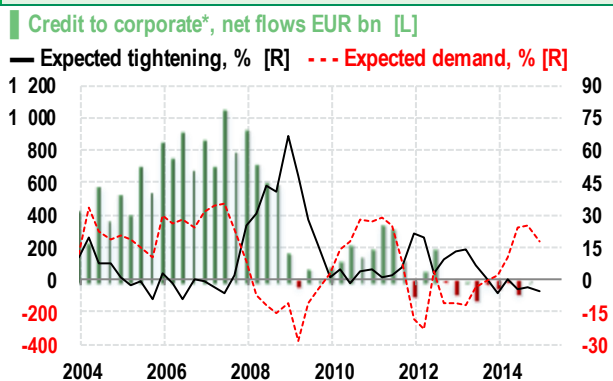
43 Euro area, net portfolio investments vs exchange rate



Source : Thomson Datastream, BNP Paribas

... also reinforced by net portfolio inflows were beyond the strong euro. However the growing trend in surpluses faded recently, while short term rates plunged. The euro is now down.

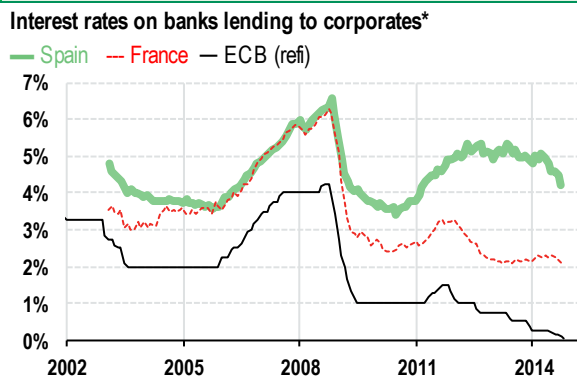
45 Euro Area, credit to corporates vs bank lending survey



Source : Thomson Datastream, BNP Paribas

ECB's bank lending surveys are improving with credit standards back to their normal levels. Demand for credit addressed by the private sector is weak, but expected to improve...

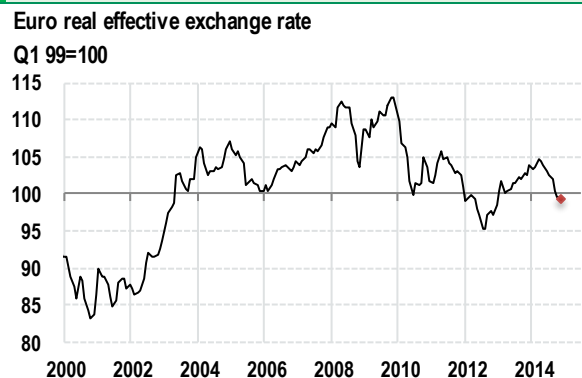
47 Fall in interest rates... not everywhere



Source : Thomson Datastream, BNP Paribas

Interest rates charged by Spanish banks are still around 5% - far above the EU average..

44 Euro real effective exchange rate



Source : Thomson Datastream, BNP Paribas

Not as cheap as the dollar...

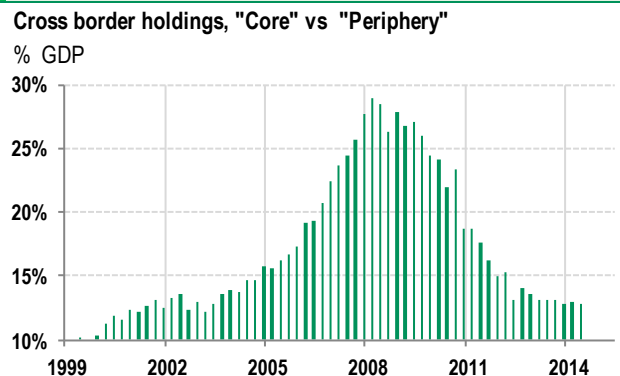
46 Spain, credit to corporates (<1y, EUR 1mn)



Source : Thomson Datastream, BNP Paribas

... credit to corporates (under 1 year and EUR 1mn) is still very depressed in Spain... Interest rates charged by banks are still around 5% - far above the EU average - but tend to decline.

48 Cross border lending activity as not yet recovered



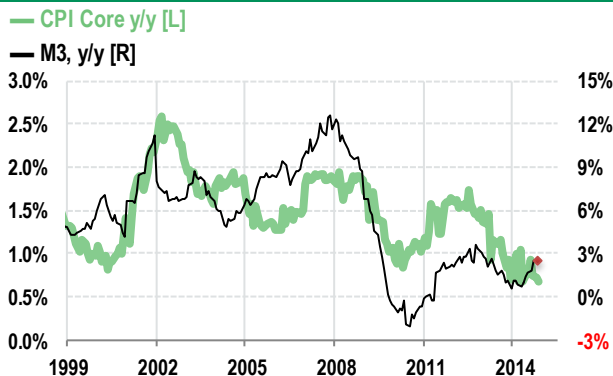
Source : Thomson Datastream, BNP Paribas

Cross border lending activity is still very low in the Eurozone and partly explained by the new regulatory environment



The Euro area economy

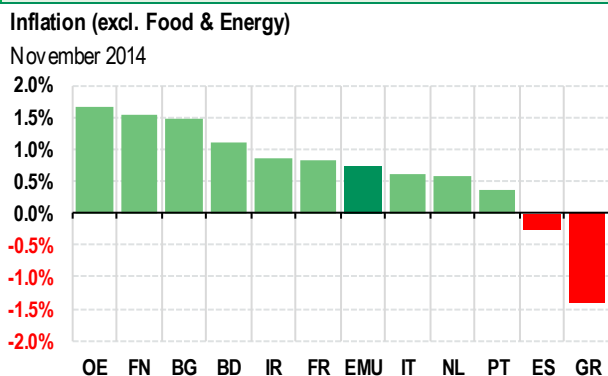
49 Euro Area, M3 vs inflation rate



Source : Thomson Datastream, BNP Paribas

As a "pillar" of monetary policy, M3 is closely watched by the ECB. It's a key driver for core prices (ex. food and energy), pointing to very low rate of inflation

51 Euro area, inflation rate by country



Source : Thomson Datastream, BNP Paribas

Core inflation (ex. Food and energy) is 1% on average in the Euro area, but close to zero or even negative is Spain, Portugal, Greece.

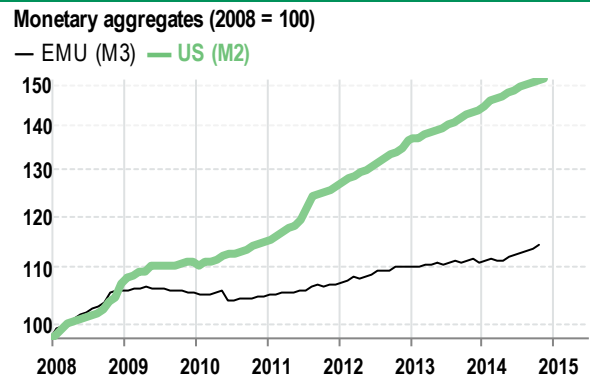
53 Market rally on Italian debt



Source : Thomson Datastream, BNP Paribas

The lowest interest rates ever seen. The Italian debt market reacted very positively to the last set of ECB measures...

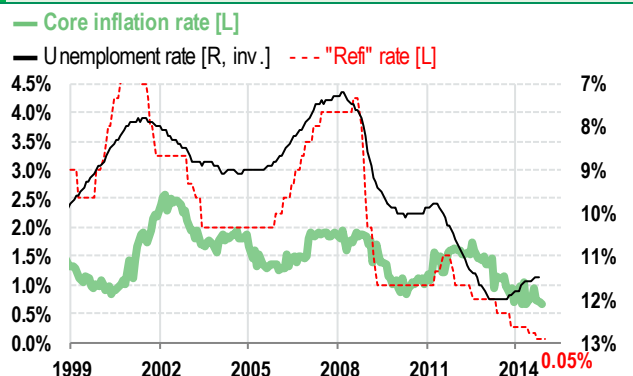
50 Monetary aggregates, Euro area vs US



Source : Thomson Datastream, BNP Paribas

The trend in money growth is too low in euro area, especially when compared to other developed countries like the US or UK.

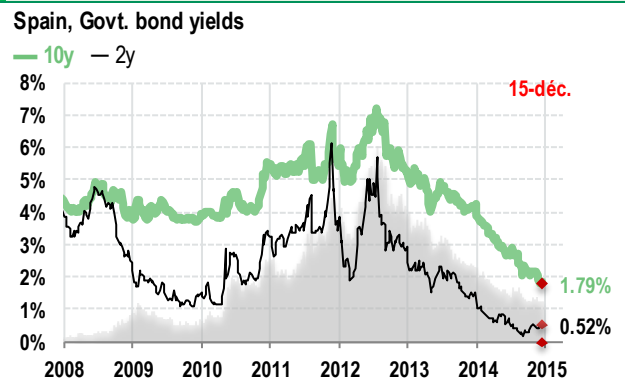
52 Euro Area, ECB "refi" rate vs determinants



Source : Thomson Datastream, BNP Paribas

The ECB has opted for an ultimate cut in interest rates on sept. 4. The refi is now 0.05%, while the deposit facility is charged at 0.20%. We do not expect any change in key rate before 2017.

54 Market rally on Spanish debt



Source : Thomson Datastream, BNP Paribas

... as did the Spanish one. For the first time since the start of the crisis (2008), the sovereign debt rating of Spain is not down but up.

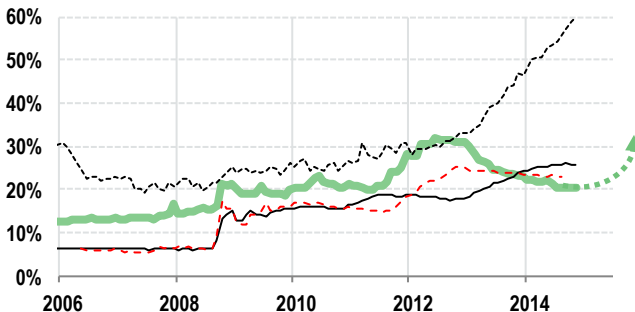


The Euro area economy

55 Central bank balance sheet

Central banks total assets, % of GDP

— ECB — Fed - - - BoE - - - BoJ



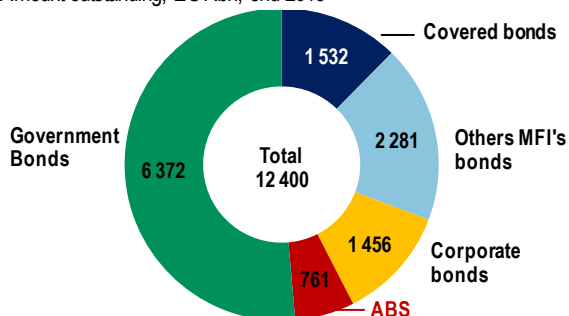
Source : Thomson Datastream, BNP Paribas

On sept 4 2014, the ECB announced it will start buying ABS and reintroduce a security market program focused on covered bonds. Its balance sheet will start to expand again...

57 What to buy?

The Euro area debt market

Amount outstanding, EURbn, end 2013



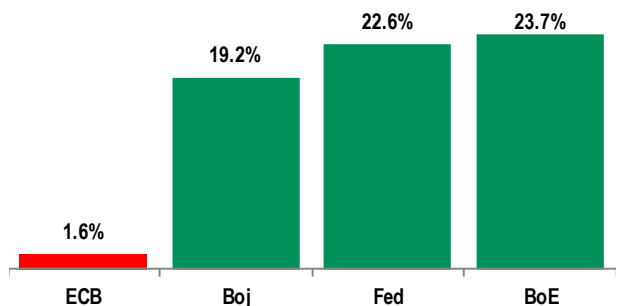
Source : Thomson Datastream, BNP Paribas

The Euro area Asset-Backed Securities (ABS) market is small and very concentrated on Mortgages. SME's ABS only account for EUR 112bn, 14% of the total ABS market.

56 Central bank balance sheet (at sept 2014)

Public debt holding

% of total



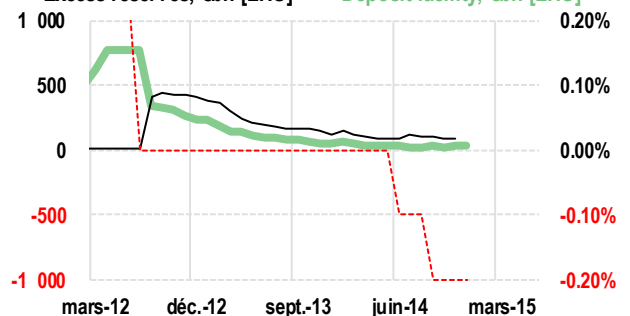
Source : Thomson Datastream, BNP Paribas

A large QE based on government bonds is not for now. The total amount of ECB's public debt holding has nothing to compare with those of other central banks.

58 Banks current account to the ECB

- - - Rate on deposit facility [RHS]

— Excess reserves, €bn [LHS] — Deposit facility, €bn [LHS]



Source : Thomson Datastream, BNP Paribas

The ECB has opted for a negative interest rate on deposit facilities and excess reserves. However, those have come down near zero since the rate is null...



FOCUS ON PUBLIC FINANCES

	GDP	Gen. Gov. fiscal balance				Interest payment			Public debt		
		Total		Primary	Struct.				Total		
In 2014	€bn	€bn	%GDP	%GDP	%GDP	€bn	%GDP	Av. rate	€bn	%GDP	Rating S&P
Germany	2 900	7.0	0.2	2.1	0.7	54.0	1.9	2.5	2 160	74.5	AAA
France	2 134	-94.7	-4.4	-2.3	-3.0	46.2	2.2	2.4	2 039	95.5	AA
Italy	1 620	-49.1	-3.0	1.7	-0.9	76.2	4.7	3.7	2 141	132.2	BBB
Spain	1 059	-59.5	-5.6	-2.3	-2.2	35.3	3.3	3.7	1 039	98.1	BBB
Netherlands	649	-16.2	-2.5	-1.0	-0.5	9.8	1.5	2.2	452	69.7	AA+
Belgium	402	-11.9	-3.0	0.1	-2.6	12.3	3.1	3.0	425	105.8	AA
Austria	330	-9.7	-2.9	-0.4	-1.1	8.3	2.5	3.2	287	87.0	AA+
Greece	181	-2.9	-1.6	2.7	2.0	7.8	4.3	2.4	317	175.4	B
Portugal	175	-8.6	-4.9	0.1	-1.3	8.8	5.0	4.0	223	127.8	BB
Finland	203	-5.8	-2.9	-1.6	-1.1	2.6	1.3	2.3	122	59.8	AA+
Ireland	184	-6.8	-3.7	0.4	-3.8	7.5	4.1	3.5	203	110.5	A-
EMU	10 065	-263.0	-2.6	0.1	-1.1	272.7	2.7	3.0	9 526	94.7	
United Kingdom	2 232	-121.5	-5.4	-2.7	-5.0	60.2	2.7	3.4	1 981	88.8	AAA
EU	13 925	-424.0	-3.0	-0.5	-1.8	360.3	2.6	3.1	12 263	88.1	
United States	13 057	-640.7	-4.9	-1.0	-4.7	508.2	3.9	4.0	13 629	104.4	AA+
Japan	3 525	-263.5	-7.5	-5.4	-8.6	72.8	2.1	0.9	8 664	245.8	AA-

Sources : European Commission, BNPP



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