

World Economic Trends

The 2013 Spring Report

– Challenges of Restoring the Potential for Growth –
(Summary)

June 2013

Cabinet Office
Government of Japan

Purpose

- To analyze the current conditions of and the outlook for the world economy, whose performance is mixed between countries and regions, as the global economic recovery remains weak, while there are some countries that began to show stability in 2013.
 - USA: The economy continues to recover modestly, as recovery of income environments and employment continues, and consumption is increasing modestly.
 - Asia: The Chinese economy continues growing only at a modest pace.
 - Europe: Despite stability beginning to appear in the financial markets, and signs of bottoming out seen in some sectors, the economy as a whole exhibits weak movements.
- To identify what caused the economy of major countries to grow only at a lower rate after the global financial crisis, and outline efforts they are making for creating innovation, a key to enhancing the potential for growth.

Chapter 1. Trends in Each Country/Region

Section 1. Overview of the Global Economy

Section 2. U.S. Economies

Section 3. Asian Economies

Section 4. European Economy

Chapter 2. Changes in the potential for growth especially among the developed countries, and the outlook for them

Section 1. Structural changes in growth after the global financial crisis

Section 2. State of affairs concerning innovation in countries, and conditions for creating innovation

Section 3. Conclusion

Chapter 1, Section 1. Overview of Global Economy – Global Economic Trends: Despite continued weakness in recovery, steadiness can be seen in some sectors.

- The world economy as a whole remains weak in its recovery, though steady movements can be seen in some sectors, despite disparities between countries and regions. (Fig.1 & 2)
 - External demand: Among the developed countries, the United States exhibits steady movements. Among emerging countries, growth remains low, except for China. (Fig. 3)
 - Domestic demand: Consumption is on a gradual increase in the United States, and emerging countries generally see steady growth in consumption. Investment is also on an upward trend in the United States, despite mixed trends being seen in the other countries. (Fig. 4)

Fig. 1 Production & Export Trends of the World

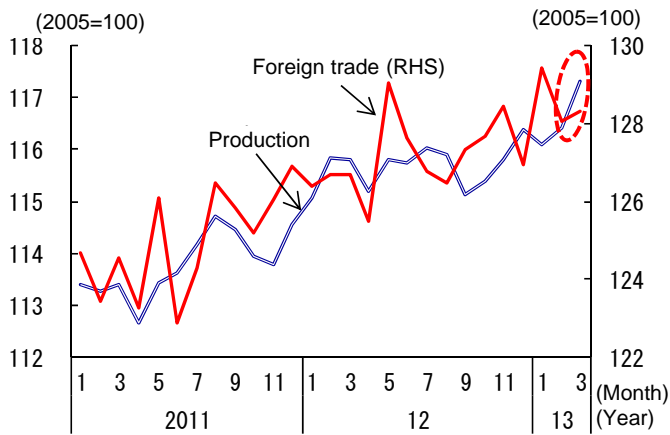


Fig. 2 Trends of Real GDP Growth Rates in Major Countries

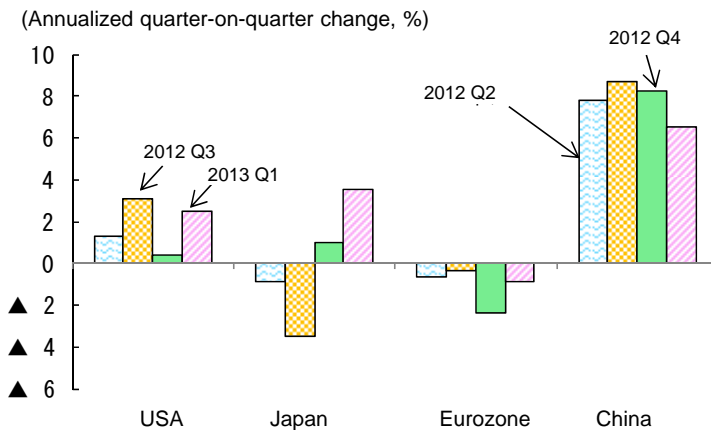
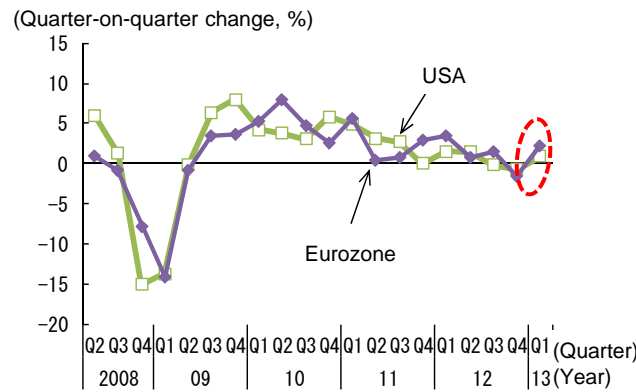


Fig. 3 Export Trends in Major Countries
(1) Developed Countries



(2) Emerging countries, etc.

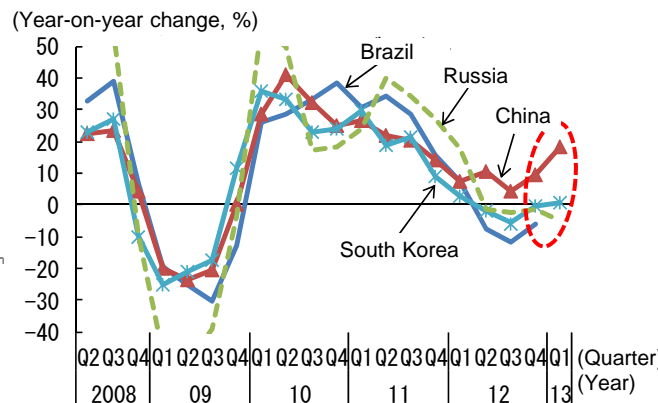
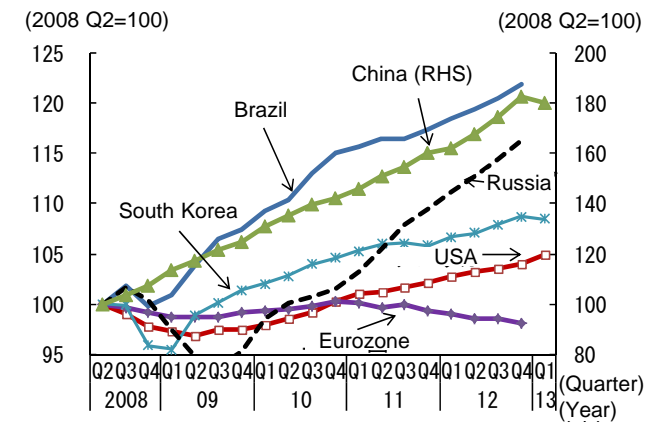
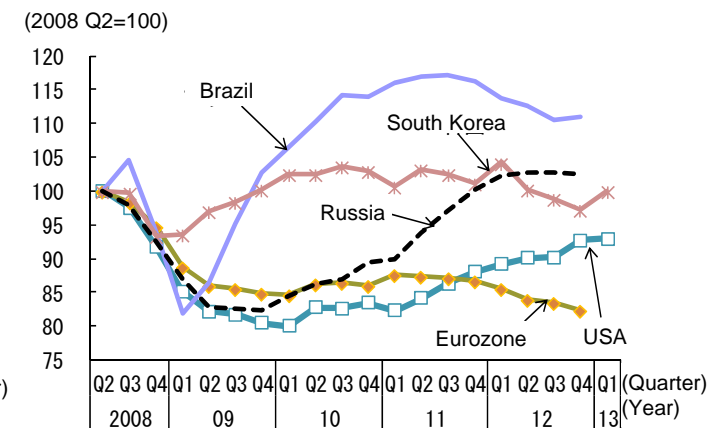


Fig. 4 Domestic Demand Trends in Major Countries
(1) Private Consumption



(2) Fixed Asset Investment



Chapter 1, Section 1. Overview of Global Economy – Global Monetary Easing and Various Economic Policies –

- Most developed countries are reconstructing their public finances, which deteriorated as a result of the global financial crisis. However, the pace of financial reconstruction differs among them. (Fig. 5)
- Since 2012, both developed and emerging countries have taken further monetary easing measures, successfully achieving stability in the financial and capital markets, though stock prices have shown different movements between the developed and emerging economies. (Fig. 6 - 8)

Fig. 5 Improvements in Structural Fiscal Balance (General Government) in Major Developed Countries

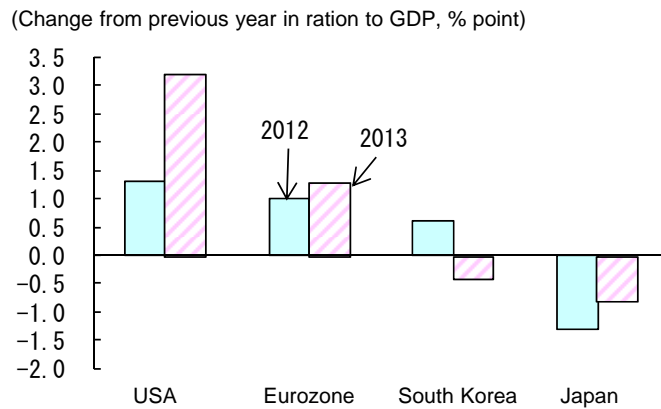


Fig. 6 Policy Interest Rates in Major Countries

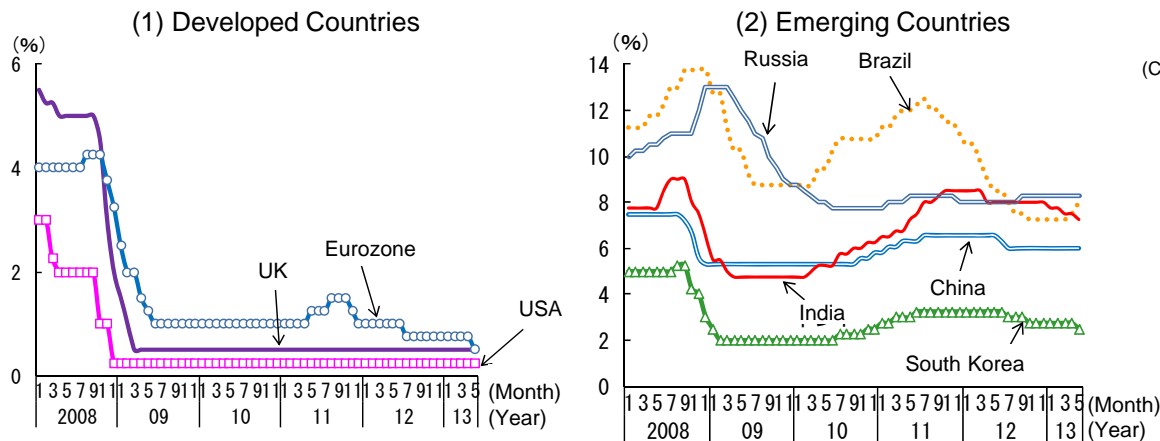


Fig. 7 Foreign Exchange Rates in Developed Countries

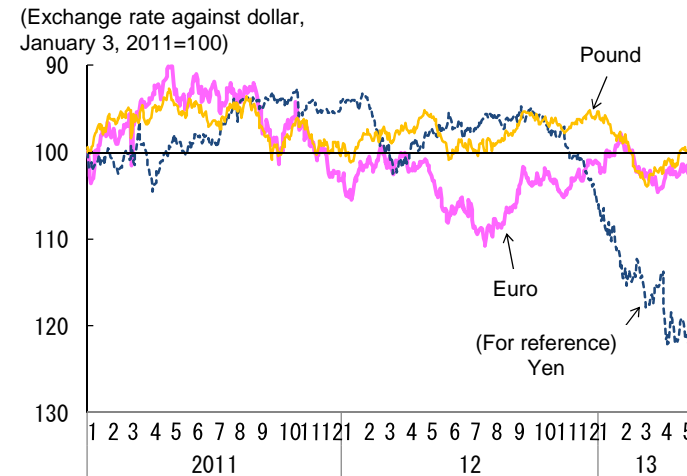
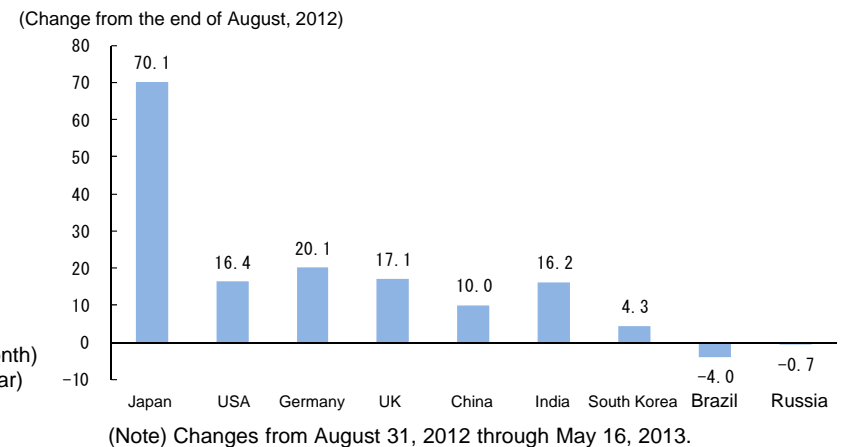


Fig. 8 Stock Price Indexes in Major Countries: Changes from Autumn 2012



Chapter 1, Section 2. U.S. Economy – Search for Sustainable Recovery –

- Consumption is on a modest upward trend mainly in durables and services (Fig. 9)
- Behind the trend lie, among others, progress in adjustment of households' balance sheet helped mainly by continued improvement in employment conditions, and rises of stock and housing prices. (Fig. 10 - 12)
- The corporate sector maintains a cautious attitude toward capital investment, though corporate profits are strong, and stock prices have reached new record highs. (Fig. 13 - 14)

Fig. 9 Breakdown of Personal Consumption Spending

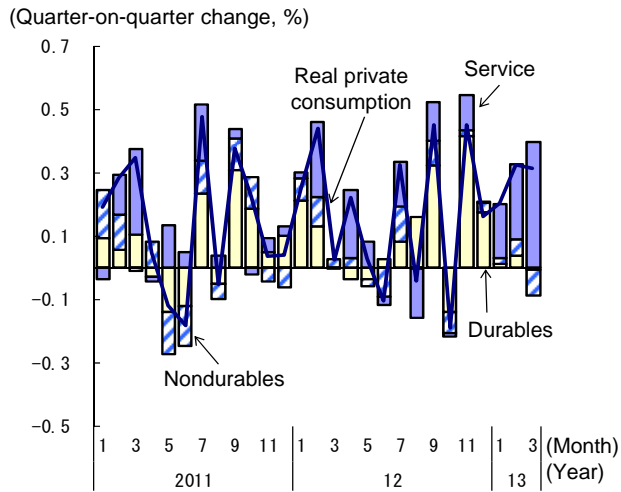


Fig. 11 Adjustment of Households' Balance Sheet (Debt Outstanding (% to Total Asset))

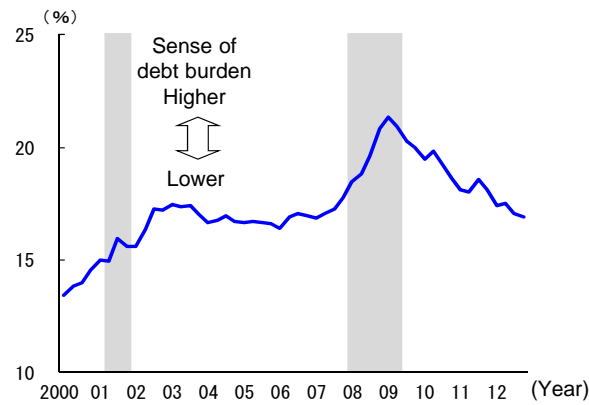


Fig. 13 Companies' Internal Fund and Capital Investment

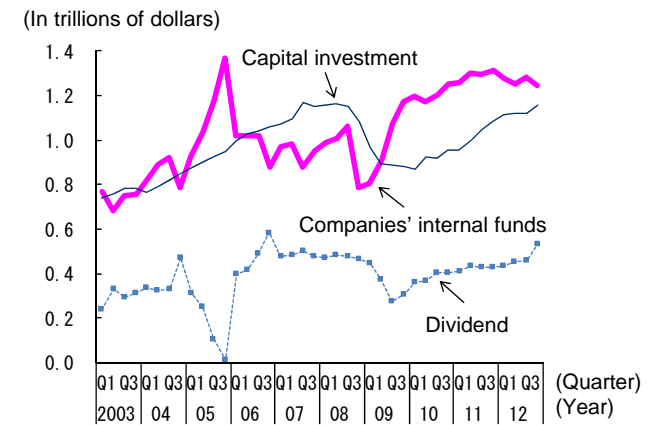


Fig. 10 Consumer Confidence

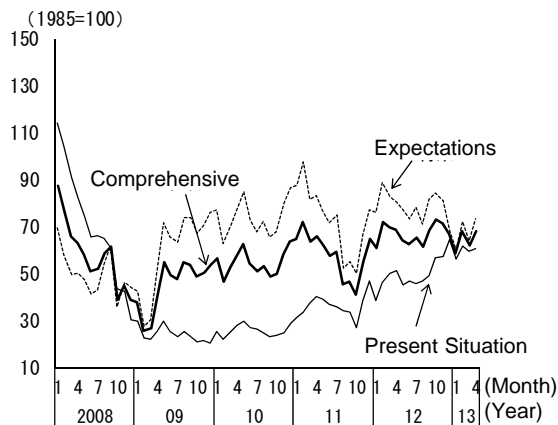


Fig. 12 Changes in Payroll Employment, and Trends in Unemployment Rate

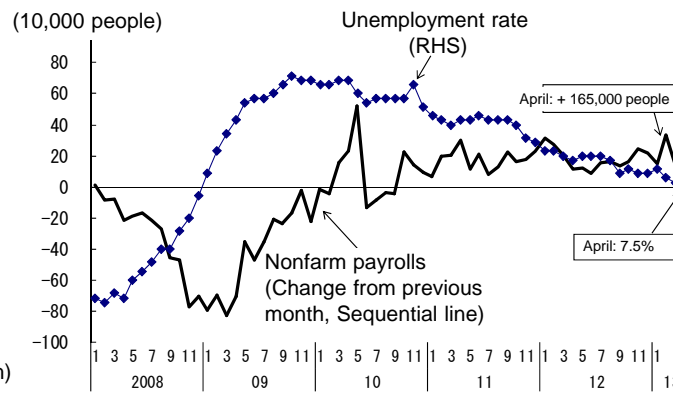
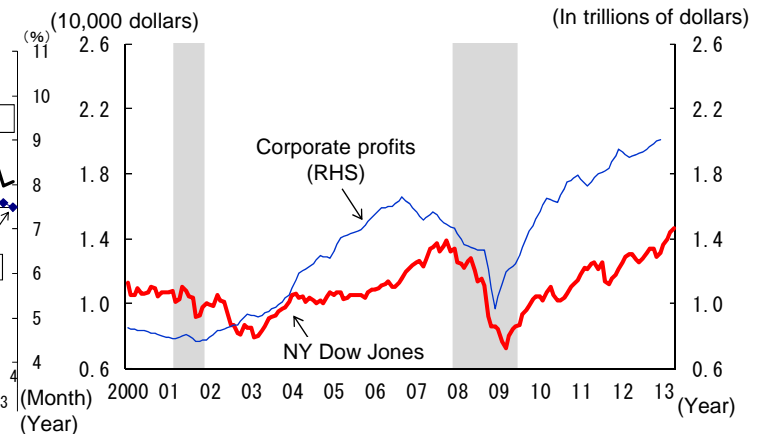


Fig. 14 Trends of NY Dow Jones and Corporate Profits



Chapter 1, Section 2. U.S. Economy – Fiscal and Monetary Policy Responses –

- Among elements of the “fiscal cliff,” Bush tax cuts and some others were avoided, though automatic spending cuts got started, leaving downward pressure on the economy. (Fig. 15 - 17)
- For monetary policy, numerical thresholds of employment (6.5% of unemployment rate) and inflation (2%, plus 0.5% or less) were introduced. The market pays attention to when additional asset purchases are undertaken and at what pace. (Fig. 18 - 19)

Fig. 15 Impact of Fiscal Cliff

		Reduced fiscal deficits (100 million dollars)	Ratio to Nominal GDP
		4,451 ¹⁾	▲2.8
“Fiscal Cliff” related	Income tax cuts expired ²⁾	950 (1,267<▲0.8>)	▲1.6
	Tax increases for high earners ²⁾	270 (360<▲0.2>)	
	Sequestration ²⁾	640 (914<▲0.6>)	

(Notes)
 1. Total reduction of fiscal deficits estimated for FY2013 (October 2012 - September 2013)
 2. Adapted from data from the Congressional Budget Office (CBO) for January to September 2013. Figures in parentheses (()) are annualized and those in angle brackets (< >) indicate ratio to nominal GDP.

Fig. 17 Forecast of Real Economic Growth

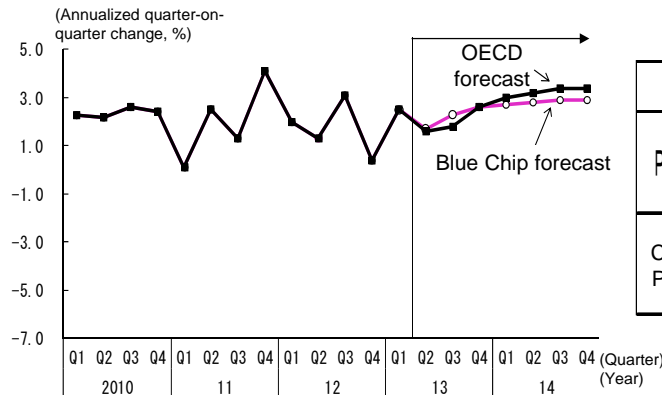
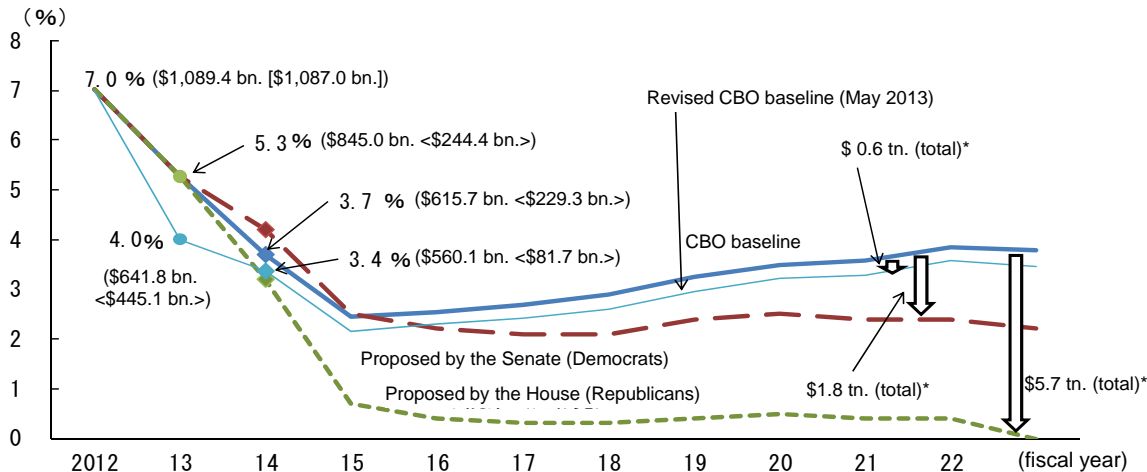


Fig. 18 FED's Inflation Forecast

		2013	2014	2015	Long-term
PCE	Latest Forecast (Previous Dec.)	1.3~1.7%	1.5~2.0%	1.7~2.0%	2.0%
	(Previous Dec.)	(1.3~2.0%)	(1.5~2.0%)	(1.7~2.0%)	(2.0%)
Core PCE	Latest Forecast (Previous Dec.)	1.5~1.6%	1.7~2.0%	1.8~2.1%	
	(Previous Dec.)	(1.6~1.9%)	(1.6~2.0%)	(1.8~2.0%)	

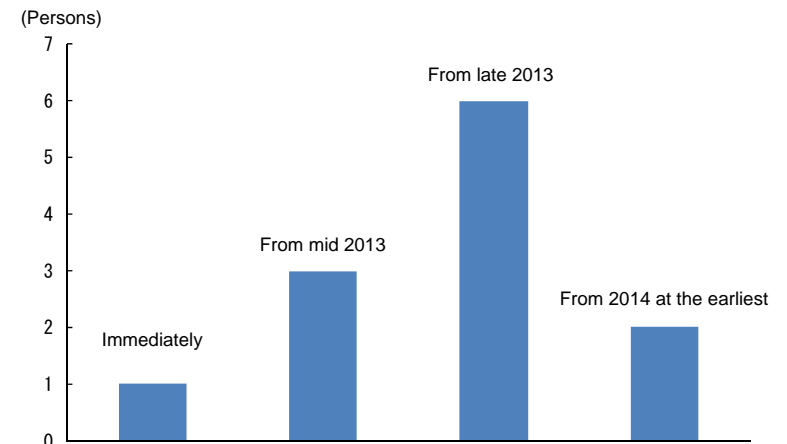
(Note) Shaded figures indicate downward revisions from previous forecasts.

Fig. 16 Trends of Ratio of Fiscal Balance (Deficit) to GDP



(Notes) 1. Figures in brackets (()) indicate deficits appearing in the President's Budget Message, and those in angle brackets (< >) indicate fiscal improvements from the previous year.
 2. Figures marked with an asterisk (*) indicate deviations from the CBO's baseline (February 2013), not reduced fiscal deficits.

Fig. 19 FOMC Members' Stance on When to Scale Down the Asset Purchase Program



Chapter 1, Section 3. Asian Economies – China: The pace of growth remains modest –

- Though propped up by monetary easing and further implementation of infrastructure investment projects, real economic growth stood at 7.9% in the October - December period of 2012, before staying at a mere 7.7% in the January - March period of 2013. Growth of exports has generally been on the same level, while that of domestic demand has been weak. Growth of production has also been on the same level partly due to inventory adjustment. (Fig. 20 - 24)
- Though growth of total social loans remains high, with strong demand from companies for funds, they may be diverted to investment in real estate, and property prices are going up again (Fig. 25)

Fig. 20 Aggregate Retail Sales of Social Consumer Goods

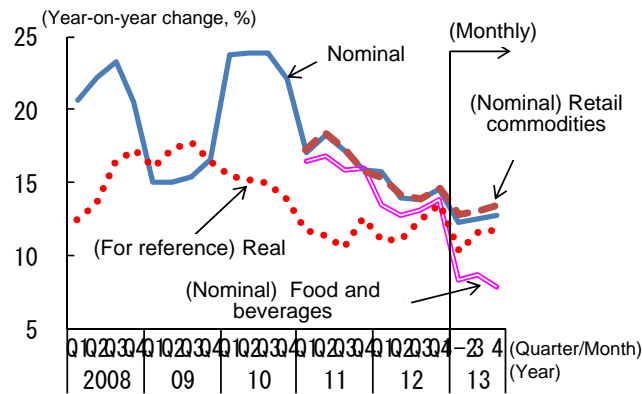


Fig. 22 Inward Direct Investment

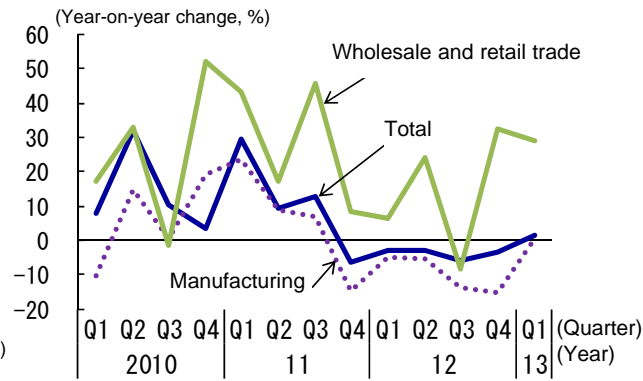


Fig. 24 Industrial Production (by industry)

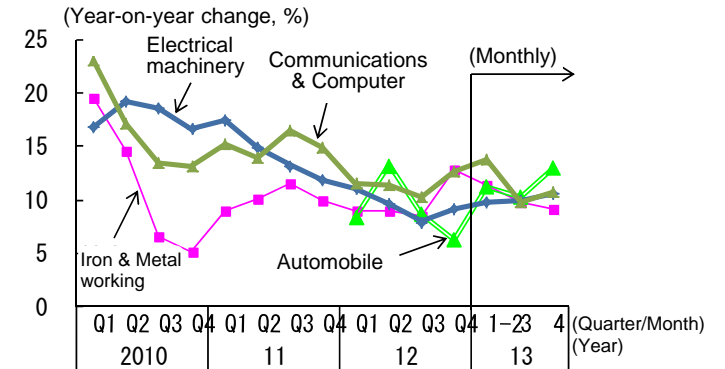


Fig. 21 Total Retail Sales at Retailers above a Certain Size (Home Appliances)

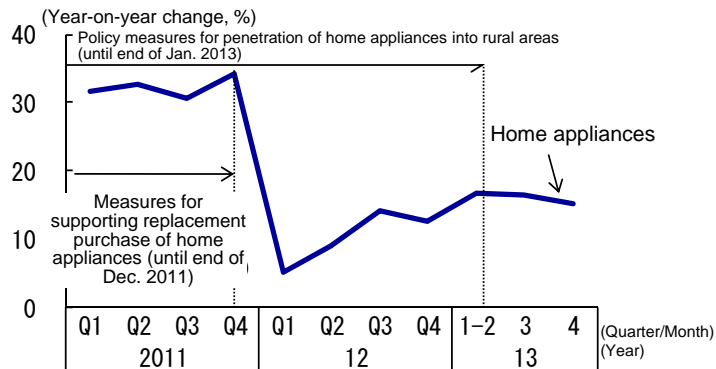


Fig. 23 Exports (By Country/Region)

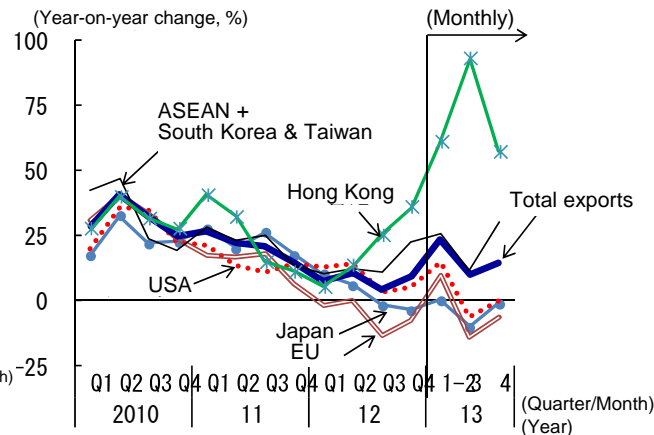


Fig. 25 Trends of Sales Price of New Houses

