Danske Markets

Investment Research

August 2012

Global Scenarios

Stuck in the mud

- Once again the recovery has been derailed and the outlook remains subdued
- Many roadblocks to be passed before euro crisis tapers off
- Tight financial and fiscal conditions keep euro area in recession
- High uncertainty to keep US growth below trend despite better fundamentals
- China has room to manoeuvre, policy stimulus to lift growth by year-end
- Policymakers digging deeper in toolboxes – central banks to ease further

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Global Scenarios is a quarterly analysis focusing on the outlook for the global economy. Read about the perspectives for and the most important risks to the global economy. The publication *Nordic Outlook* presents our expectations for the Nordic economies.

Danske Research

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Global overview

Stuck in the mud

- **The global economy disappointed sharply in H1 and the outlook has become more downbeat. However, we expect some stabilisation in global growth in the coming quarters before a slight recovery sets in towards the end of the year.**
- **We have revised down our growth forecasts for all regions and expect global activity to remain sluggish for some time.**
- **We now expect growth in the US to be 2.2% in 2012 and 2.0% in 2013. This is below trend growth and is likely to trigger further stimulus from the Fed. Fiscal policy is likely to be a further drag in 2013 and we expect it to dampen growth by 1-2 percentage points.**
- **The euro area recession has deepened and looks set to be more protracted than previously expected. We look for a drop in GDP of 0.4% in 2012 followed by very weak growth in 2013 of 0.5% - mostly led by higher exports.**
- **Chinese growth disappointed in H1. But we expect stimulus measures to lift growth towards the end of the year, which would give support to global activity.**
- **The main risk factor is still the euro debt crisis and despite the latest initiatives we are still quite concerned about the medium-term risks. Uncertainty surrounding the fiscal cliff in the US also provides downside risks to the outlook.**

Recovery derailed again – deja vu

While the global economy looked increasingly positive at the beginning of 2012 things have once again taken a turn for the worse, as was also the case in both 2010 and 2011 when the early recovery was derailed over the spring and summer time before rebounding in the autumn.

Disappointments this year have come from all regions. While it was expected that the euro area would be in recession in Q4 11 and Q1 12, the expected small improvement in Q2 has failed to materialise. In China, growth was also projected to see a gradual improvement during H1 but instead has stayed at – for China - very subdued levels around 7-7.5%. Finally, US data looked strong in early 2012 as both business surveys and job growth firmed up. However, in Q2 indicators have rolled over with not least a sharp drop in industrial orders and retail sales. US growth in Q2 came in at only 1.5% compared with expectations of 3% in early 2012.

The main good news during H1 has been a decent recovery in the US housing market. Sharp declines in mortgage yields, a strong reduction in the inventory of houses for sale and low levels for house prices have finally triggered rising demand for houses and rising house prices. This is lending much needed support to the US economy, which has been hampered by weaker export growth and fiscal contraction.

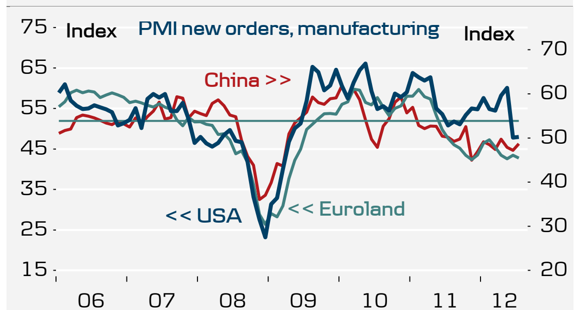
Global GDP outlook

% y/y	2012 Danske Bank	2012 Consensus	2012 OECD	2012 IMF	2013 Danske Bank	2013 Consensus	2013 OECD	2013 IMF
USA	2.2	2.1	2.4	2.0	2.0	2.1	2.6	2.3
Euro area	-0.4	-0.5	-0.1	-0.3	0.5	0.6	0.9	0.7
Japan	2.3	2.6	2.0	2.4	1.6	1.4	1.5	1.5
China	8.0	8.2	8.2	8.2	9.0	8.4	9.3	8.5
Global	3.5		3.4	3.5	4.0		4.2	3.9
Change from April forecast								
USA	-0.3				-0.6			
Euroland	-0.5				-0.7			
Japan	0.0				0.0			
China	-0.6				-0.1			

Source: Danske Bank, Bloomberg.

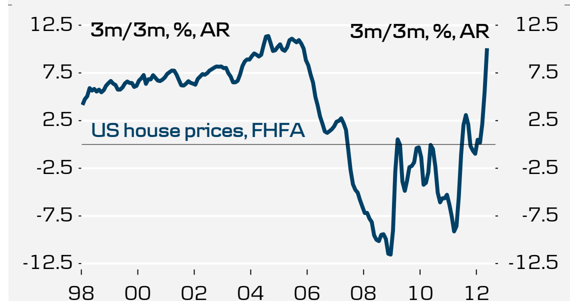
Note: OECD forecast is from May-12, IMF forecast is from July-12

Weakness in China and euro area spreading to US



Source: Danske Bank, Bloomberg.

US housing – a light in the dark



Source: Danske Bank, Bloomberg.

Global growth to stabilise before recovering slightly

Looking ahead we expect global growth to remain subdued and very fragile as corporates and consumers are very hesitant due to the uncertainty stemming from the euro debt crisis and the US fiscal cliff hitting in 2013.

However, we do expect to see stabilisation in global growth in Q3 before a slight recovery sets in during Q4 driven by emerging markets.

The main engine is likely to come from stimulus measures in China, where authorities have shifted their focus from inflation to growth. China tightened policy quite vigorously in 2011 due to high inflation and this has had stronger repercussions into 2012 than we expected. However, China has already embarked upon new stimulus measures in the form of two interest rate cuts, reducing reserve requirement ratios and fiscal stimulus. A decline in inflation from the peak of 6.5% in July 2011 to below 2% in July this year has given China room to shift its focus to growth again since inflation is now significantly below its target for 2012 at 4%. Although recent increases in food prices are a rising threat it is not yet significant enough to remove China's flexibility. We expect Chinese growth to rise from around 7% in H1 12 to 9.5% in Q4 and we project GDP to grow 9% in 2013 as a whole.

Turning to the OECD countries, though, the outlook is less bright. **The US economy is expected to continue to grow only moderately** with growth slightly below 2% in H2 12 only rising gradually in early 2013. While this is not a disaster it is still below trend growth and the unemployment rate is likely to stay high for some time. This is likely to trigger more stimulus from the Fed at the September meeting. With fiscal policy being a drag and with no room for manoeuvre here it is entirely left to monetary policy to provide stimulus.

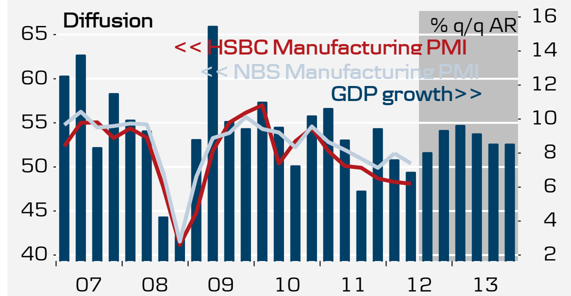
We do not see a high risk of recession in the US as there are no longer any big excesses in the US private sector: companies are already running a fairly tight ship with low investment activity and fairly lean inventories. The banking sector is also in much better shape and credit is flowing again. The household sector has come a long way in deleveraging. The oversupply of houses has also been reduced and low mortgage yields are providing some tailwind for house prices. With few excesses in the private sector we believe it will take a bigger shock to push the US into recession.

The main risk is the so-called fiscal cliff the US is expected to hit in 2013, which could cut as much as 5pp off GDP growth if no new laws are made. However, we believe some of the stimulus measures will be extended and that the total drag will be in the order of 1-2pp.

The outlook for the euro area remains downbeat. The recession is likely to extend into Q3 and even though we expect positive growth in 2013 it is likely to stay very low for some time and unemployment is expected to rise from an already high level of 11.2%. Severe austerity in southern Europe, not least Spain and Italy, is weighing on overall GDP growth. Recently, the weakness has spread to Germany as well where exports are now suffering and investments are being held back due to the rising uncertainty related to the euro crisis.

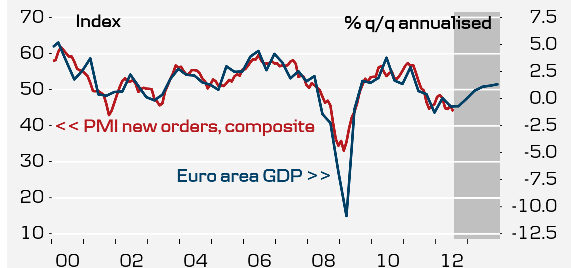
However, we believe that Germany will be able to grow decently in the coming years based on its high exposure to emerging markets and improving

Chinese growth expected to rise on stimulus



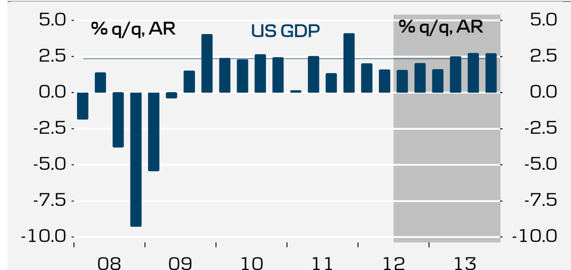
Source: Danske Bank, Bloomberg.

Euro recession protracted – weak growth in 2013



Source: Danske Bank, Bloomberg.

US growth cruising below trend growth



Source: Danske Bank, Bloomberg.

consumer fundamentals. Southern Europe on the other hand, is likely to remain in deep economic crisis in the coming years.

Policymakers digging deeper in tool box

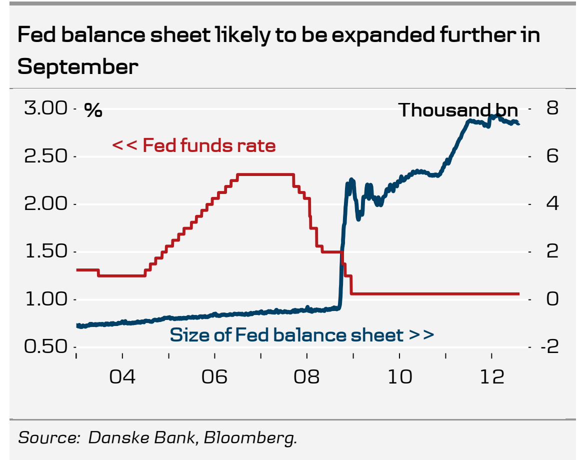
With most policy rates in the western world already close to zero, a lack of fiscal room for manoeuvre and a sputtering global economy, monetary policymakers are starting to look deeper into their tool boxes and are weighing up which options are left to stimulate growth in an effective way.

Among these options are negative deposit rates, new rounds of unsterilised bond buying (QE), more direct loans to corporate and consumers and in the case of the Fed, a further extension of guidance for when rates will be raised.

We believe the Fed will announce additional stimulus measures at the September meeting. We also believe it will extend its guidance of when rates will be raised further to 2015.

In the euro area, the ECB has announced that it is ready to support the euro bond markets at the short end if it happens alongside buying from the EFSF and based on strict conditionality towards the countries whose bonds are being bought. We believe it is very likely that Spain over the coming month will request for help and it will at some point trigger bond buying by the ECB.

Fed balance sheet likely to be expanded further in September



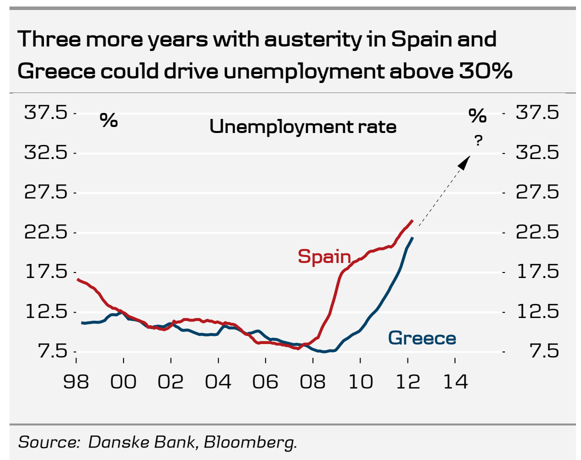
Source: Danske Bank, Bloomberg.

Euro debt crisis a significant risk factor still

The key risk factor for Europe and the global economy is a break-up of the euro. While we still believe the EU leaders will do all they can to avoid such an outcome and we believe that they will succeed, the risk of a break-up have been raised.

The risk comes primarily from two fronts. First of all, if contagion to Italy intensifies and efforts to get yields down to sustainable levels fail, Italy could be in need of a rescue package at some point. With the general election coming up in April 2013 at the latest and euro sceptics in Italy gaining ground, this scenario cannot be ruled out. It is not clear whether the money needed to give Italy as part of a rescue package could be raised.

Three more years with austerity in Spain and Greece could drive unemployment above 30%

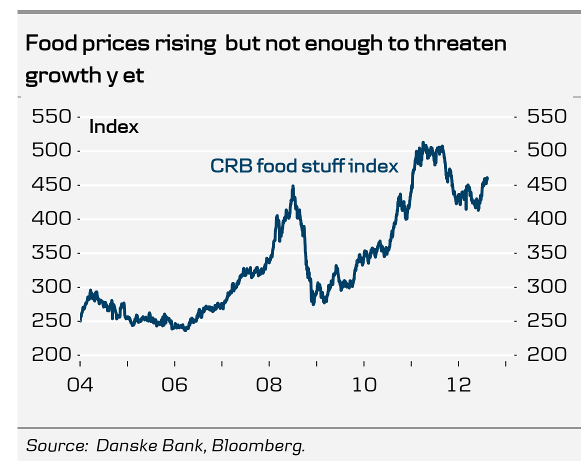


Source: Danske Bank, Bloomberg.

Secondly, the break-up risk also comes from rising euro scepticism in the debt-burdened countries, which are feeling significant pain from austerity. Unemployment is already around 25% in both Spain and Greece and with planned continued austerity for the next three years the population could at some point choose to elect parties that would not meet the conditions from the euro leaders – and this could mean some countries could be forced out.

A break-up of the euro would most likely have significant negative financial and economic implications and could lead to a new financial crisis. While this is not our main scenario, we have become increasingly concerned about such an outcome.

Food prices rising but not enough to threaten growth y et



Source: Danske Bank, Bloomberg.

Other risks stem from the US fiscal cliff and food prices

On top of the euro debt crisis we are also approaching a critical time in the US regarding the fiscal outlook. By the end of the year, the US looks set to hit the so-called fiscal cliff when the Bush tax cuts expire and stimulus spending comes to an end. If no new laws are agreed upon this could cut off as much as five percentage points from GDP. The debt ceiling also has to be

raised around the New Year in order for the US to continue issuing bonds. This most likely will have to take place after the November election but ahead of the New Year.

We believe new laws will be agreed upon and that the overall drag on GDP will narrow to 1-2% of GDP. But there is high uncertainty related to this.

Finally, a further rise in global food prices could become a drag on not least emerging markets where food is a high share of the consumer basket. It will take a significant further and more broad-based increase for this to happen, though – see also *Commodities Update: Weather premium in grains to stay elevated*.

Expectations on key figures and central banks over coming quarter

Country	Indicator	Comment	Measure	Latest		Nov/Q3
USA	GDP	Growth is stuck below trend as businesses and consumers remain cautious	% q/q, AR	1,5%	→	1,5%
	ISM	Inventory/demand balance is unfavourable and the ISM will remain low for some months	Index	49,8	↗	51,0
	Employment	Job growth to remain sluggish in coming quarters	3 mth. mavg.	105K	→	100K
	Inflation	Consumer price inflation to hover around 2% and core inflation will trend gradually lower	% y/y	1,7%	↗	1,9%
	Federal Reserve	High unemployment and low inflation will trigger QE3 from the Fed	% p.a.	0,13%	→	0,13%
Euroland	GDP	Recession will continue in Q3 - we will have to wait to 2013 for positive growth	% q/q, AR	-0,7%	→	-0,7%
	PMI	Manufacturing PMI is expected to improve moderately in Q4	Index	44,0	↗	48,0
	Inflation	Headline inflation will start edging lower	% y/y	2,4%	→	2,3%
	ECB	ECB is expected to keep rates unchanged and start buying Spanish bonds	% p.a.	0,75%	→	0,75%
	German ifo curr.	Germany will also have negative growth in Q3, but will soon recover	Index	111,6	→	112,0
Japan	GDP	Growth slowing on weaker exports and waining impact from restructuring	% q/q, AR	1,4%	↘	0,5%
	PMI	Manufacturing activity is expected to stabilize in Q4	Index	47,9	↗	49,0
	Inflation	Inflation to stay substantially below BoJ's 1.5% inflation target	% y/y	-0,3%	→	-0,2%
	BoJ	Leading interest rate close to zero until 2014, more QE imminent	% p.a.	0,1%	→	0,1%
China	GDP	Growth will only improve slightly on policy easing as weaker exports weigh down	% q/q, AR	7,3%	↗	8,0%
	HSBC PMI	The impact from monetary and fiscal easing will be more substantial in Q4	Index	49,3	↗	52,5
	Inflation	Inflation will increase slightly on higher food prices and price liberalizations	% y/y	1,8%	↗	2,3%
	PBOC	Room to ease with inflation below 4% target and growth below trend in Q3	% p.a.	6,0%	↘	5,75%

Source: Danske Bank

The bad alternative

Back at the edge again

- **There are still a number of road blocks that will have to be passed in order for the debt crisis to abate. The risk of hiccups remains substantial, which could trigger a crisis escalation at a time when bailout/austerity fatigue is already substantial in the creditor/debitor countries.**
- **In this scenario, the political leaders will again look into the abyss. The end-game bargain will centre on willingness to mutualise nationnal credit risk in return for surrendering sovereign power to EU.**
- **The disagreement on the way forward could result in another political deadlock. Downbeat sentiment combined with further deterioration of the economic outlook could change the composition of the parliaments in some euro area countries in a way that increases the risk of a euro break-up further.**

Despite the recent market relief the list of road blocks that will have to be passed remains long. The biggest short-term risk factors are 1) the ruling of the German Constitutional Court on the ESM and 2) the political backing for Draghi's vision of joint EFSF and ECB intervention. If the crisis escalates and the expected ECB response is halted or falls short of what is needed, peripheral government bond yields will rise to unsustainable levels again.

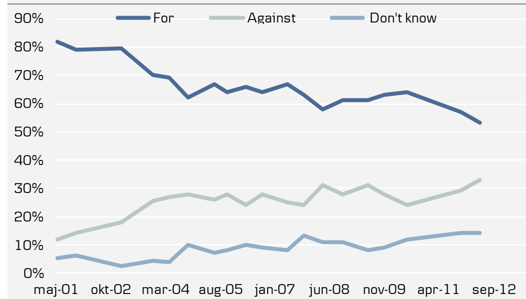
In this scenario the political leaders will find themselves stuck at the edge again. The debt-stricken countries led by Italy's Monti are likely to engage in the end-game discussion that will centre on countries' willingness to mutualise country-specific credit risk. The creditor countries will be hesitant and will require strong sacrifices in the form of surrendering sovereign power to the EU.

The disagreements on the way forward could blow out in the open and the risk of political deadlock increases. The market impact would be very negative as the confidence in the survival of the euro decreases. Downbeat sentiment combined with further deterioration of the economic outlook will in particular hit Italy and Spain that are already suffering.

With a general election coming up in Italy the risk of a substantial change in the composition of the Italian parliament is real, as already highlighted by Mario Monti. Despite the fact that it is less than a year ago that Berlusconi had to surrender the power to a technocrat government, he is currently re-emerging in a more euro sceptic form. If the political leadership in one of the four major euro area countries changes to euro sceptics, it will increase the risk of a euro break-up further.

In this scenario, with the euro area close to falling apart, sentiment in the euro area drops and the current euro-area recession will turn into a depression with periphery countries facing a prolonged sharp fall in production. Global growth will take a hit as well from heightened uncertainty and financial turmoil.

Public support for the euro is decreasing in Italy*



Note, answer to the question: "There has to be a European monetary union with one single currency, the Euro"

Source: European Commission

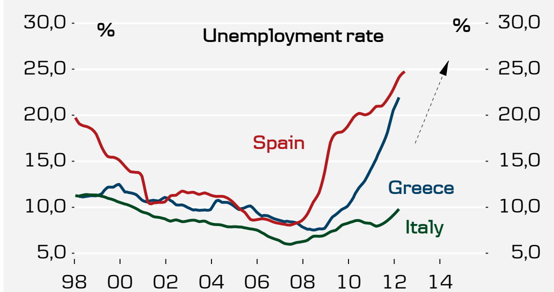
Remaining rescue funds are very limited without ESM

Total EFSF firepower	**440**
Dispursed or committed, total	**298,3**
Ireland	17,7
Portugal	26
Greece	144,6
Spain*	100
Cyprus*	10
Remaining EFSF firepower	**141,7**

** Note, the figures for Spain and Cyprus have not been confirmed by the Eurogroup*

Source: EFSF and Danske Bank

Unemployment will reach new highs in debt-stricken countries



Source: Reuters EcoWin and Danske Bank

The good alternative

A more positive sentiment shift

- **A common feature of the business cycle over the past three years has been that growth was overestimated in the summer months but underestimated in the autumn. The explanation could be that the effects of sentiment shocks are underestimated but that the duration of the impact is overestimated.**
- **If this is the case, there is a risk that we again underestimate the positive sentiment effect on the economy of an easing of the euro crisis following action from the ECB and EFSF this autumn.**
- **A stronger sentiment shift could also be triggered by more positive news out of China as stimulus measures start to work in the coming quarters.**

A common pattern over the past three years has been a stronger start to the year than expected, a sharper downturn during spring and summer than foreseen followed again by a stronger than expected recovery during the second half of the year. The pattern is evident when we look at surprise indices for key figures for the US and the euro area over the past three years.

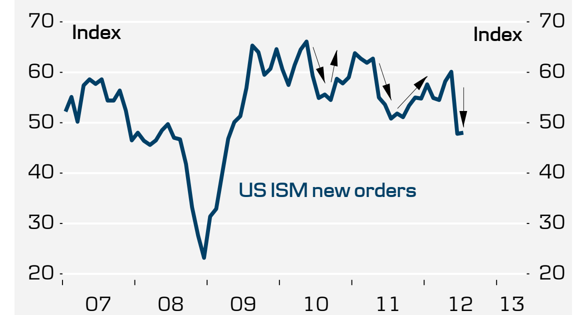
It is not entirely clear why we have seen this pattern in surprises. One explanation could be that we underestimate the effect of shocks – but also the positive effect when the shocks fade.

In 2010 the euro crisis escalated during spring 2010 when Greek yields went above 10% and Greece got its first bailout in May. This caused great uncertainty and may explain the downturn over the summer that caused double dip fears for the first time. The double dip fears turned out to be overblown, though, and the global economy rebounded surprisingly in the second half.

In early 2011 the global economy was hit by a severe oil and food price shock, which was followed by more turmoil in the euro crisis - this time with Portugal in focus, which eventually requested bailout in April 2011. These shocks led to a downturn over the summer of 2011 and again fears of recession. And again, especially the US economy surprised to the upside, showing a pick-up in growth and rise in ISM during autumn 2011.

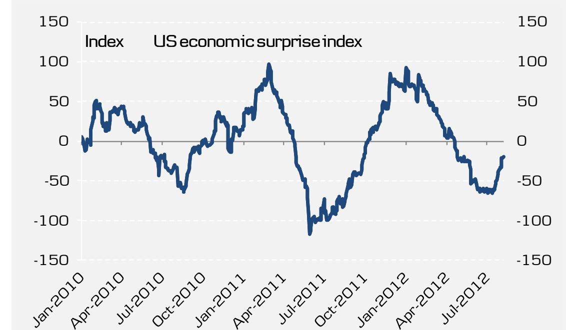
In 2012 we have again faced the same pattern so far. After a decent start to the year, a significant intensification of the euro crisis led to fears of a break-up, which was followed by a downturn in the US, a deepening recession in the euro area and a Chinese economy that failed to recover. However, with renewed hope that euro area leaders and the ECB can get the crisis under control we have seen a change in sentiment recently in a more positive direction. It is a possibility that we again see that the positive effects of this sentiment shift have a stronger impact on the economy than projected. The positive sentiment shift could also become stronger if China starts to show signs of increasing growth as the mood about the Chinese economy has become very downbeat.

The recoveries in autumn 2010 and 2011 were generally underestimated – could it happen again?



Source: Reuters EcoWin and Danske Bank

US surprise index recovered in autumn in previous years – and shows signs of bottoming again



Source: Bloomberg and Danske Bank

US

Growth stuck below trend

- **Data over the past four months has painted a bleaker picture of US growth than we had envisaged. Some of the weakness is payback from unusually high activity during the warm winter months but the underlying trend in economic activity has slowed as well.**
- **A tug of war between improving fundamentals for the private sector and the need for fiscal consolidation in the government sector is currently playing out. Improved balance sheets for households, banks and businesses are supporting growth but fiscal constraints and global uncertainty are keeping a lid on economic activity in coming quarters.**
- **We now expect GDP growth to print below trend until Q2 13, leaving annual growth at 2.2% in 2012 and 2.0% in 2013. A modest increase in employment growth from the current level should keep the unemployment rate from rising further this year and push it to 7.8% by end-2013.**
- **A pickup in domestic demand and generally improved fundamentals should keep the US out of recession. The weakness in job growth will keep the Fed alert and we see a high probability of additional unconventional easing.**

High uncertainty depress growth

Although fundamentals for the private sector in the US have improved, the downturn in global growth coupled with a large degree of uncertainty has led businesses and consumers to hold back on investments and spending. Undoubtedly, the boom-bust profile in economic activity over the past eight months has been driven partly by warm winter weather spurring activity in the winter months followed by a payback in spring. However, the weakness has now carried over into the summer and it is increasingly difficult to dismiss this as a pure 'seasonality issue'.

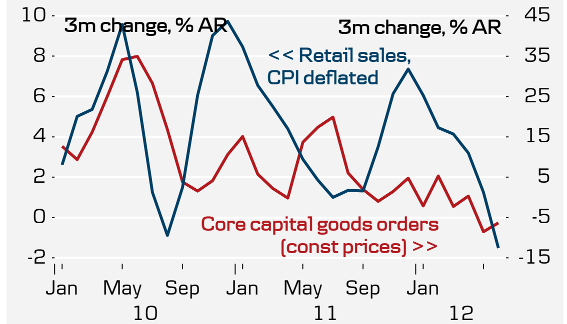
We expect uncertainty to remain high in coming quarters. There is no solution to the European debt crisis in the pipeline and domestic fiscal issues in the US remain a source of uncertainty as the so-called fiscal cliff is looming in January 2013.

In summary, we expect GDP growth to print below trend until Q2 13 leaving annual growth at 2.2% in 2012 and 2.0% in 2013; down from our previous estimates of 2.5% and 2.6% (see *Global Scenarios: Global recovery moving east*, 19 April). A modest increase in employment growth from the current level should keep the unemployment rate from rising further this year and we expect it to decline to 7.8% by end-2013, compared with our April estimate of 7.2%.

A bad starting point

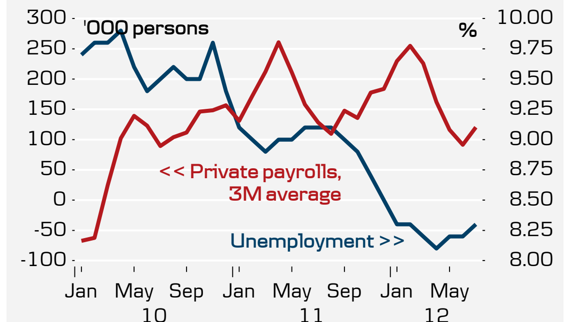
Inventory accumulation in H1 12 accelerated, while demand slowed, leaving the manufacturing sector at a bad starting point going into H2. Although we expect the sector to get support from increased private demand, primarily household

Consumers and businesses have been cautious over the past couple of months



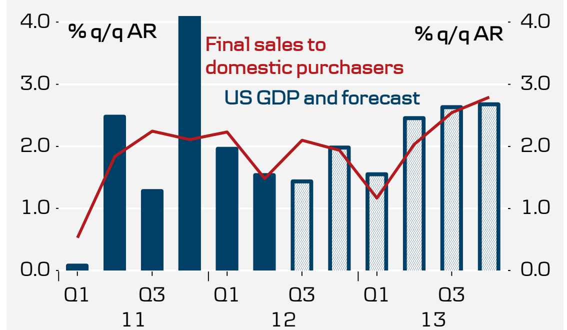
Source: Reuters EcoWin, Danske Bank

Job growth has slowed and unemployment set to stay elevated



Source: Reuters EcoWin, Danske Bank

New GDP forecasts

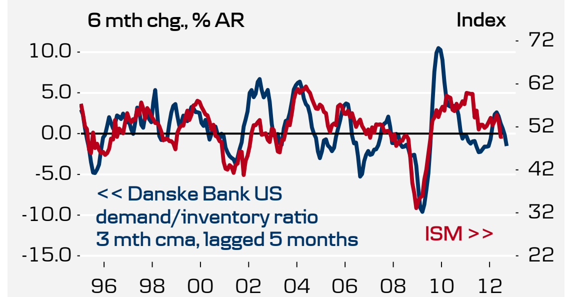


Source: Reuters EcoWin, Danske Bank

spending and to a lesser extent business investments, production growth is set to remain slow in order to bring inventory accumulation down to more normal levels. On top of this, we expect the weakness in global growth to continue to weigh on US exports for the coming quarters.

The takeaways from the July ISM manufacturing survey were not encouraging either. New orders declined and the inventory indexes rose, suggesting that we have still not reached the low point of the US business cycle. Looking at hard data for the manufacturing sector, the current inventory/sales ratio suggests that the ISM should stay below 50 for the next couple of months before stabilising at a slightly higher level.

Inventory/demand balance has deteriorated in recent months



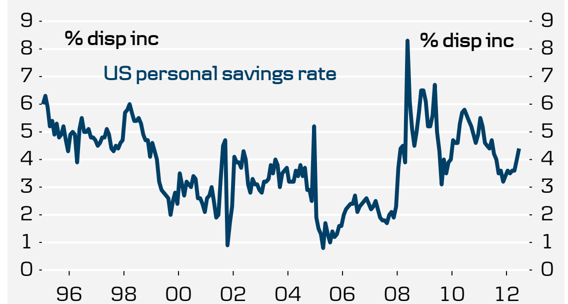
Source: Reuters EcoWin, Danske Bank

Households are playing it safe

Real consumer spending slowed to only 1.5% q/q annualised in the second quarter of this year and with June real personal spending showing a fall of 0.1% m/m, the third quarter has a weak starting point. This cautiousness in spending prevailed despite a significant tailwind to real incomes from lower energy prices over the spring. The upshot is that households' increased savings have pushed the personal savings rate to 4.4% of disposable income in June compared with 3.6% at the beginning of the year, leaving consumers better positioned to boost spending than a few months ago.

Over the past few weeks, energy prices have crept higher again on unfavourable supply conditions and should be a slight headwind to consumption in the second half of the year. However a modest pickup in job growth to 115,000 per month in H2 compared with the meagre 73,000 average in Q2 should ensure real income growth just above 1.5% q/q AR. Although this is by no means fantastic, pared with a modest decline in the savings rate it should give way for private consumption growth of 1.5-2.0% q/q annualised in the second half of the year.

A higher savings rate leaves US consumers well positioned to increase spending



Source: Reuters EcoWin, Danske Bank

A fiscal blow to growth

Looking further ahead, US households are facing a significant drag on incomes in the first quarter of next year caused by fiscal contraction. On 1 January a range of tax cuts and spending measures is set to end unless new legislation is passed. Some of these measures are special for 2013[1], while others have a long record of extensions and are supported by both Republicans and Democrats in Congress[2]. We expect all the 'usual measures' to be extended once again but this still leaves politicians facing a significant fiscal contraction of more than 3% of GDP on 1 January unless new laws are passed. With growth running well below 2.5%, if realised, the fiscal contraction would be likely to push the US economy into recession.

We do not expect the entire fiscal cliff to be realised but we expect a drag of around 1.0-2.0pp on 2013 GDP growth. A large degree of uncertainty surrounds this forecast as the political outlook is blurred. So far, the most likely outcome of the elections on 6 November is that Obama will serve another term as President but with a Congress dominated by Republicans. Hence, fierce political discussions are likely to precede any new laws passed, as we saw last year during the debt ceiling debate.

The fiscal contraction next year is substantial

Public balances and effect on GDP growth		
FY, % of GDP	2013	2014
Deficit, Presidents budget	-6.1	-4.2
Deficit, Fiscal cliff realised	-3.7	-2.1
Deficit, CBO alternative	-6.3	-5.8
Fiscal drag**, Presidents budget	-1.7	-1.7
Fiscal drag**, Fiscal cliff realised	-3.8	-1.5
Fiscal drag**, CBO alternative	-0.8	-0.4

** Deficit adjusted for automatic stabilisers*
*** Assuming a multiplier of one*

Source: Reuters EcoWin, Danske Bank

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[1] The Bush tax cuts, the payrolls tax cut and extended unemployment benefits and the Budget Control Act.

[2] The latter includes indexing the Alternative Minimum Tax for inflation to ensure that a large share of middle income households are not hit by a higher tax rate, adjusting Medicare reimbursements higher and extending expiring business tax credit such as the R&D tax credit.

Recession fear unwarranted

First, the US is not Europe. Fundamentals for households and the banking sector have improved significantly over the past year and more recently the housing market has shown signs of improvement. The corporate sector has strong balance sheets and a turn in confidence is likely to give way to an increase in both hiring and investments. On top of this, the pace of deleveraging at the household level has slowed and debt levels have come down.

Credit growth remains an important positive factor for the economy and banks have eased lending standards on average for seven consecutive quarters now. Consumer credit growth has averaged 5% q/q AR over the past year, which is in line with the pre-financial crisis pace of credit expansion. Judging from the latest senior loan officer survey, there is no indication that the pace of credit expansion is about to decelerate. Rather, with a net 20% of respondents reporting an increased willingness to make consumer instalment loans, consumer credit growth is likely to accelerate further over the coming quarter.

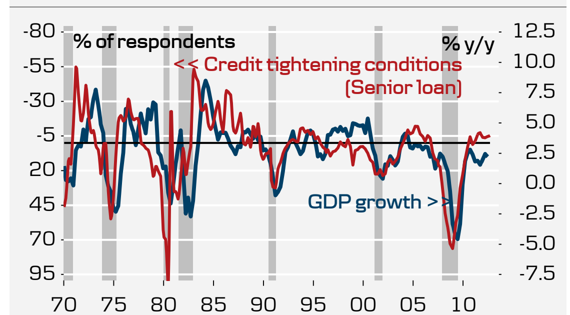
Another bright spot is the housing market. It seems the exceptionally low interest rates and record-high affordability have finally sparked a bit of action in home sales and construction activity. Residential construction increased 10% q/q AR in Q2 and the NAHB housing market index, which usually leads housing starts, rose to a new cycle high in July. House prices also rose 3.5% from January to May (the latest data point) despite a large stock of distressed housing still weighing on the market. While there are several factors supporting the housing market currently, high and steady unemployment coupled with the large shadow inventory of foreclosed homes is likely to hold down a more significant take-off of activity and prices. However, when the labour market gains traction in spring next year, the take-off in housing could be rapid.

In summation, the lack of excesses in the housing market, in the corporate sector and at the household level makes it unlikely that the current slowdown will spiral into a recession without a significant negative external or fiscal shock.

Fed action is moving closer

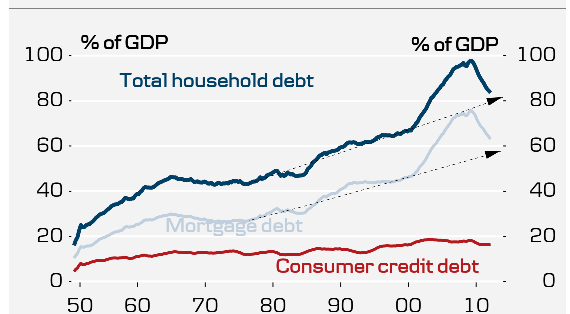
The weakness in the labour market in particular should keep the Fed alert (see *Research US: Fed QE3 is moving closer*) and inflation should not be a worry. Wage growth has trended consistently lower over the past four years and inflation expectations have been steady. We expect headline CPI to remain below 2% for the remainder of the year and fluctuate around 1.5% in 2013. Core inflation has held up stubbornly high but we expect the large amount of slack in the economy to filter through finally and send annual core inflation below 2% by the end of this year. We expect the downward trend to continue throughout 2012 and see core CPI at 1.7% by end-2013.

Credit conditions support growth



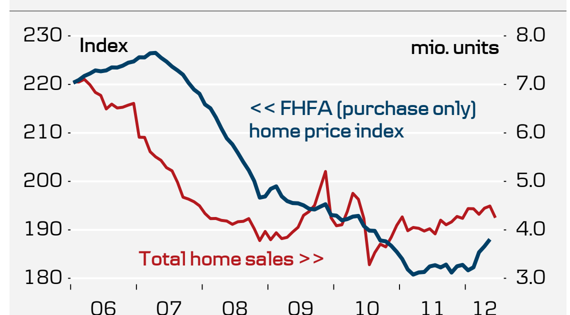
Source: Reuters EcoWin, Danske Bank

Household debt level has come down



Source: Reuters EcoWin, Danske Bank

Housing market is slowly recovering

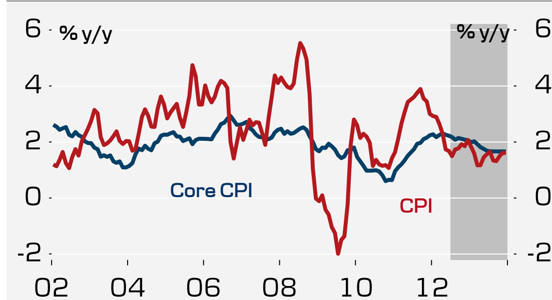


Source: Reuters EcoWin, Danske Bank

With both unemployment and inflation set to run below the Fed's target for the near term, we expect the Fed to act and announce another round of unconventional easing measures at the 13 September FOMC meeting.

We think the most likely option is another large bond-buying programme in mortgage securities. Possibly coupled by an even softer communication on the path for the Fed funds rate pushing the guidance on the first rate hike into 2015 from the current late 2014. Another option is to lower the interest rate paid on excess reserves and deposits at the Fed from the current 25bp in an attempt to lower money market rates further. However, there has not been much focus on this option in communications from the Fed, which makes such a move less likely, in our view.

We expect inflation to slow over the coming year



Source: Reuters EcoWin, Danske Bank

Macro forecast – US

% Change q/q AR	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Calendar year average 2011	2012	2013
GDP	2.0	1.5	1.4	2.0	1.6	2.5	2.6	2.7	1.8	2.2	2.0
Private Consumption	2.4	1.5	1.6	1.8	1.0	1.7	2.2	2.5	2.5	1.9	1.7
Private Fixed Investments	9.8	6.2	7.8	6.8	4.6	7.5	8.5	8.5	6.6	9.5	6.8
Residential	20.6	9.8	17.0	13.9	13.9	17.0	17.0	17.0	-1.4	12.5	15.2
Non-residential	7.5	5.4	5.7	5.1	2.3	5.1	6.3	6.3	8.6	8.8	4.7
Change in inventories ($bn, rea	56.9	66.3	56.0	58.0	60.0	62.0	60.0	62.0	31.0	59.3	61.5
Change in inventories [1]	-0.4	0.3	-0.3	0.1	0.1	0.1	-0.1	0.1	-0.2	0.2	0.0
Public Consumption	-3.0	-1.4	-1.2	-1.2	-0.8	-0.8	-0.8	-0.8	-3.1	-2.1	-1.0
Exports	4.4	5.3	4.9	6.6	8.2	8.2	9.1	8.2	6.7	4.4	7.4
Imports	3.1	6.0	5.3	5.7	4.9	4.9	7.0	8.2	4.8	4.4	5.6
Net exports [1]	0.1	-0.3	-0.2	-0.1	0.3	0.3	0.1	-0.2	0.1	-0.1	0.0
Unemployment rate (%)	8.2	8.2	8.3	8.2	8.1	8.0	7.9	7.8	8.9	8.2	7.9
CPI (y/y)	2.8	1.9	1.7	1.9	1.5	1.4	1.4	1.6	3.1	2.1	1.5
Core CPI (y/y)	2.2	2.3	2.1	2.1	2.0	1.8	1.7	1.7	1.7	2.2	1.8
Public Budget [2]									-8.6	-7.7	-6.3
Public Gross Debt [2]									97	102	106
Current Account [2]									-3.1	-3.3	-3.3
Fed funds rate [3]	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25			

Source: Danske Bank

1. Contribution to GDP growth, 2. Pct of GDP, 3. End of Period

Euro area

No growth before 2013

- **We expect the euro area to remain in recession in Q3 and that we will have to wait till 2013 before we see positive growth rates. For 2012 as a whole we expect a GDP print of -0.4% and for 2013 we forecast 0.5% growth.**
- **The deteriorating demand in the euro area is broad-based. Fiscal consolidation continues to weigh down on growth, while low business and consumer sentiment is a drag on private consumption and investments. Growth will rely on external demand in the coming quarters.**
- **In particular, tightening credit conditions and financial fragmentation in the euro area banking sector will continue to be a headwind. The adverse financial conditions are driven by high sovereign risk premia and new regulation.**
- **We expect Mario Draghi's vision involving a synchronised EFSF/ECB intervention in the Spanish primary/secondary market to eventually materialise.**
- **The euro area debt crisis remains the main risk factor to the global economy and we still see a number of road blocks that will have to be surpassed for the crisis to taper off (see bad scenario).**

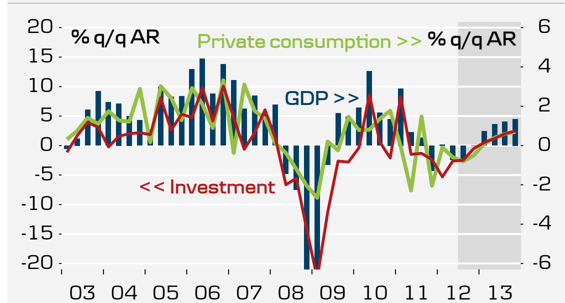
Recession in Q3 - and growth will be low for long

The growth outlook for the euro area remains very downbeat with the leading indicators continuing to signal contraction. The sharp deterioration in PMIs has halted, but the leading indicator remains in recessionary territory. German Ifo figures are continuing the decline with the forward looking expectation component now at the lowest level in almost three years. These signals combined with continued uncertainty on the way forward in solving the crisis caused us to revise our growth outlook over the summer, see *Revising down euro area growth*, 27 July.

The euro zone has been in a light recession since Q4 last year and we do not expect positive growth to return until the beginning of 2013. We expect another GDP decrease of 0.2% q/q to occur in Q3, after a similar decrease in Q2. The core countries are likely to show contracting production and, in particular, Spain is expected to feel the pain of increased fiscal tightening and very tight financial conditions in Q3. For 2012 as a whole, we expect a GDP print of -0.4% and for 2013 we forecast a reading of 0.5%. This implies that unemployment will continue to reach new highs. We expect the gradual recovery in the US and, in particular, Asia to lead a moderate export-driven recovery as we enter 2013.

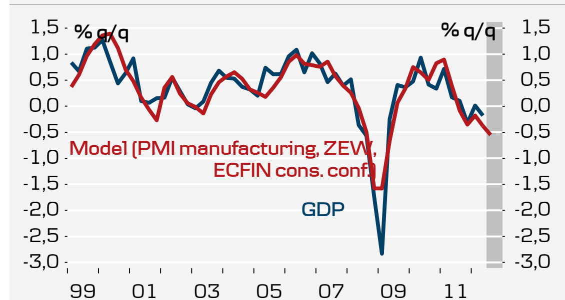
The deteriorating demand in the euro area is broad-based. Fiscal consolidation continues to weigh down on growth, while uncertainty and tight credit conditions have led to lower business and consumer sentiment that continues to drag down private consumption and investments.

Growth is likely to be low for long



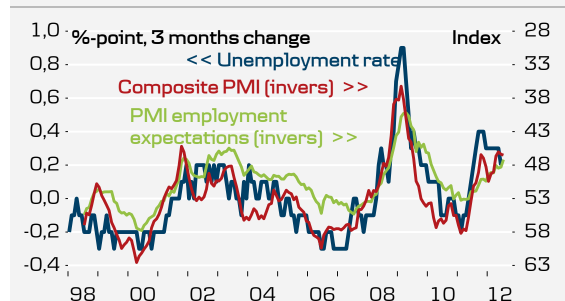
Source: Reuters EcoWin and Danske Bank

Soft data model suggests sharpest drop in Q3



Source: Reuters EcoWin and Danske Bank

Unemployment set to reach new highs

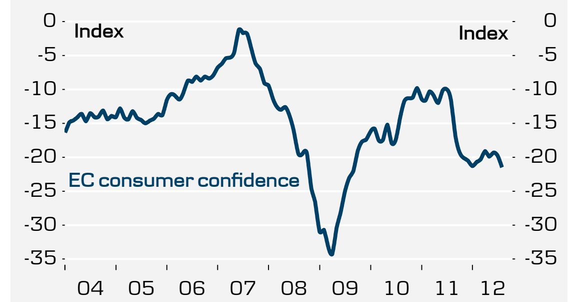


Source: Reuters EcoWin and Danske Bank

The European Commission's consumer confidence indicator has been trending downwards since the beginning of the year and has now reached the lowest level since 2009. Retail sales show the same pattern. Euro area retail sales in June were down by 1.2% compared to a year ago. Unemployment has risen to a new euro era high of 11.2%, which weighs on private consumption. We expect private consumption to have fallen by 0.2% q/q in Q3 and that we will see further decreases of 0.1% q/q in Q4.

It is investments, in particular, that are suffering from prevailing uncertainty about the future of the euro and tight financial conditions. We forecast investments to drop by 0.8% q/q in Q3 and 0.1% in Q4. As we enter 2013, we expect both private consumption and investments to contribute to growth, but remain below trend.

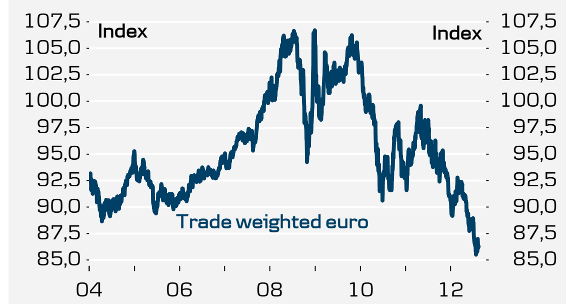
Euro area consumer confidence edge lower



Source: Reuters EcoWin and Danske Bank

The only short-term positive contribution to growth is likely to come from net exports. We expect this component to improve mainly due to low import growth. Also the weakening of the euro will continue to improve the competitiveness of euro area businesses and support net exports.

A weaker euro will support competitiveness



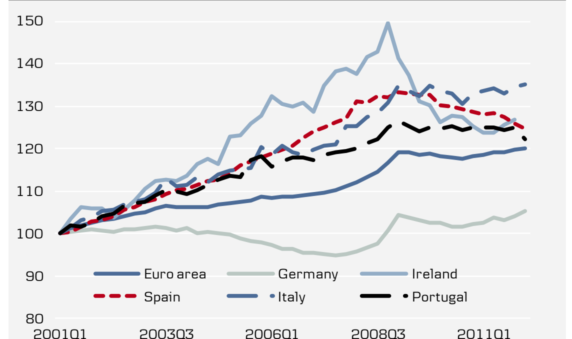
Source: Reuters EcoWin and Danske Bank

The diverging growth trends within Europe remain substantial as Italy and Spain are implementing their planned belt tightening. Germany avoided recession in Q2 with GDP increasing 0.3% q/q, but is most likely heading for negative GDP growth in Q3. Germany remains the positive story in the euro area, however. Increasing wage growth, slowly rising house prices and very low funding costs will support domestic demand, and we expect German growth to turn positive again in Q4. We forecast the German economy to grow 0.9% this year and 1.4% in 2013.

Among the major euro area countries, Italy has so far experienced the sharpest drop in GDP. After the crisis intensified, Italian GDP dropped 0.8% q/q in Q1 and 0.7% in Q2. The decreases in Spain have been more modest with drops of 0.3% and 0.4% in Q1 and Q2, respectively. Looking forward, we expect this pattern to switch and that we will see the sharpest contraction in Spain in H2. Due to the better than expected performance in Spain in H1 we have revised our growth forecast for Spain slightly up to -1.2% in 2012 and to -0.8% in 2013. Also, the outlook for Italy is very bleak, with an expected drop in GDP of 2.1% in 2012 and 0.3% in 2013.

One encouraging development within the euro area is the intensifying convergence in unit labour costs. Note, however, that it will take time before they have adjusted sufficiently to rebalance intra-euro-area trade imbalances.

Unit labour costs are now converging



Source: Eurostat and Danske Bank

We expect low growth for as long as the unwinding of imbalances in the public, private and financial sector continues.

Tightening credit conditions – still a headwind

The euro area banks' continued tightening of credit standards in Q2 and their outlook for Q3 indicates further tightening at a similar pace, according to the last Bank Lending Survey. This implies that it will continue to be a drag on growth. Banks report that the tightening is due to a deterioration of funding conditions as a result of banks' direct exposure to sovereign debt but also that it is due to a decline in the value of their sovereign collateral. Also, new regulations contributed to tighter standards. Banks reported some deterioration in their access to retail and wholesale funding across all funding categories due to the escalation of the debt crisis in Q2, see *Banks continue to tighten credit standard,* 27July.

Very tight credit conditions in particular in Spain and Italy have caused a drop in both investments and private consumption, and this is likely to continue. Spanish and Italian banks are increasingly relying on ECB funding, which is also evident in the rising Target 2 imbalances that have reached new highs.

The tightening credit standards will continue to weigh down on growth in H2. We expect this headwind to taper off gradually during the coming year. Both the ECB and IMF have recently pointed to the fragmentation of financial markets along the national borders as one of the main problems in the euro area.

Target 2 imbalances have reached new highs

Source: Universitat Osnabruck and Danske Bank

Expect EFSF and ECB market intervention

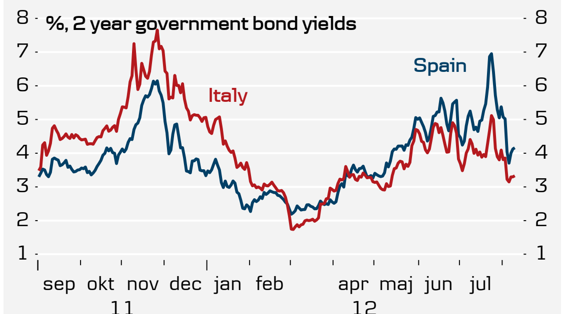
We expect the next step in the euro area debt crisis to be Spain asking for EFSF assistance. At the last ECB meeting, Draghi provided some details on the ECB's and the political leaders synchronised plan that should help drive down Spanish and Italian funding costs, see also *Flash Comment: ECB Meeting – Draghi opening the door for politicians*. Since then, more details have been released and we now have a better picture of how this will work.

According to the plan, the EFSF should be active in the primary market of the country in question, while the ECB will start purchasing bonds with shorter maturities in the secondary market, once the EFSF is ready. There is to be no ECB intervention before a Memorandum of Understanding is signed. The ECB is needed because the remaining resources in the rescue funds are too limited for a credible sustained intervention. The plan is clear, but we believe the timing of this remains fuzzy.

Another option is that Spain will postpone the decision and hope that sovereign credit spreads compress further on Draghi's statement alone. If investors buy fully into Draghi's plan, it might not even be necessary for the Spanish government to request aid. A credible central bank backstop would in that case have done the job. But we doubt that European policy makers have earned that kind of credibility.

Our main scenario is that within the next couple of months Spain will ask for EFSF/ESM intervention. Draghi's new vision will have to mature in Spain before it is politically feasible. There has been some speculation that the ECB will await the ruling of the German Constitutional Court (12 September) before intervening in the bond markets. The timing of the joint intervention will primarily depend on the performance in sovereign bond markets in Spain and Italy. If we see a sharp deterioration again, the request will most likely be moved forward. For more on the market implications, see also *Strategy: From failure to success in 24 hours*.

Mario Draghi's vision has led to sharp fall in Italian and Spanish yields with shorter maturities



Source: Reuters EcoWin and Danske Bank

ECB support is needed for credible intervention

Combined ceiling of EFSF/ESM	**700**
Total EFSF firepower	**440**
Dispursed or committed, total	**298**
Ireland	17,7
Portugal	26
Greece	145
Spain*	100
Cyprus*	10
Remaining firepower EFSF/ESM	**402**
Remaining EFSF firepower	**142**

* Note, the figures for Spain and Cyprus have not been confirmed by the Eurogroup

Source: EFSF and Danske Bank

Low rates for very long

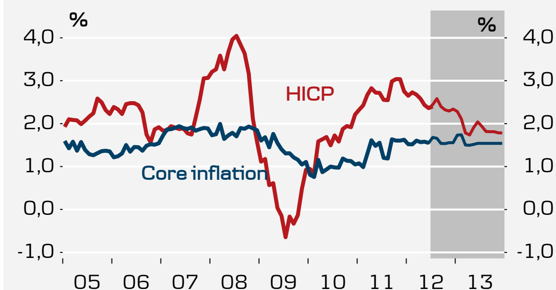
We expect the ECB to keep rates unchanged within the forecast horizon. The option to cut the refi rate further exists, but the impact on the real economy would be limited if the deposit rate is kept unchanged at zero. Note though, that the zero rate on the deposit is only a psychological boundary, and recent comments suggest that the ECB is considering different options to ease monetary policy further. This implies that risk is skewed towards even lower rates on both refi and deposits. One argument for cutting the deposit rate to negative territory could be to reduce the fragmentation of the interbank

market by incentivising lending to Spanish banks in particular. Note though, that it is not a clear call that the function of the interbank money market would improve as long as one has the large difference in sovereign credit risks.

Inflation remains somewhat above the ECB's target with the most recent reading at 2.4% caused by increases in energy and food prices while core inflation remains downbeat. For 2012 as a whole, we forecast inflation at 2.5%. We expect inflation to fall below the target as we enter 2013. Inflation expectations remain stable and therefore inflation is not currently a market theme. This has basically been the case since Draghi took office.

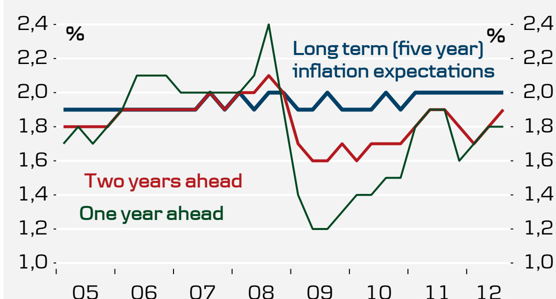
The high risk premia in some sovereign markets are making the traditional monetary policy dysfunctional. ECB have previously tried to address this with long term LTROs. At this stage, we expect ECB's main tool to address this issue will be intervention in shorter matured Spanish and possibly also Italian bonds at some point during the Autumn. Another easing of collateral rules is also an option that ECB will explore over the coming months.

Inflation will edge below ECB target in 2013



Source: Reuters Ecowin and Danske Bank

Professional forecasters inflation expectations remain stable



Source: ECB and Danske Bank

Euro area macro forecast

% Change q/q AR	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Calendar year average 2011	2012	2013
GDP	0,1	-0,7	-0,7	0,0	0,7	1,1	1,2	1,4	1,5	-0,4	0,5
Private Consumption	-0,1	-0,6	-0,8	-0,5	0,1	0,4	0,6	0,7	0,2	-0,6	0,0
Private Fixed Investments	-5,3	-2,6	-2,5	-0,5	0,5	1,2	2,0	2,5	1,6	-2,9	0,2
Change in inventories [1]	-1,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,2	-0,7	0,0
Public Consumption	1,4	-0,4	-0,5	-0,4	-0,4	-0,4	-0,3	-0,3	-0,3	0,0	-0,4
Exports	3,9	-1,0	-0,9	1,0	3,0	4,0	4,0	4,5	6,4	1,3	2,3
Imports	-0,6	-1,7	-1,6	0,0	1,6	2,6	3,0	3,6	4,2	-1,6	1,2
Net exports [1]	2,0	0,3	0,3	0,5	0,7	0,7	0,6	0,6	1,4	0,7	0,6
Unemployment rate (%)	10,9	11,1	11,3	11,5	11,6	11,8	11,7	11,6	10,2	11,2	11,7
CPI (y/y)	2,7	2,5	2,4	2,2	2,0	1,8	1,8	1,8	2,7	2,5	1,8
Core CPI (y/y)	1,5	1,6	1,6	1,6	1,7	1,5	1,5	1,5	1,4	1,6	1,6
Public Budget [2]									-4,1	-3,4	-3,2
Public Gross Debt [2]									88,0	91,9	92,9
Current Account [2]									0,1	0,5	0,8
ECB refi rate [3]	1,00	1,00	0,75	0,75	0,75	0,75	0,75	0,75	1,25	0,88	0,75

Source: Danske Bank *1. Contribution to GDP growth, 2. Pct of GDP, 3. End of Period*

Asia

Waiting for China to recover

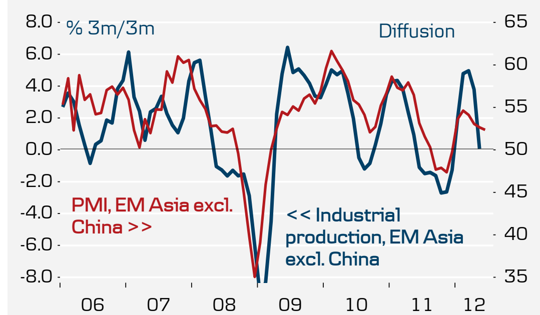
- **Growth has slowed across Asia as exports to Europe and the US suffer and China's growth has failed to recover. This is now forcing a more aggressive policy response with both fiscal and monetary policy being eased across Asia.**
- **In China growth remains subdued and we cut our GDP forecast for 2012 to 8.0%. The property market has rebounded on the back of monetary easing and the risk of a major meltdown in the property market is declining.**
- **China's growth to remain subdued in Q3 on the back of weaker exports but growth should improve more markedly in Q4 on the back of fiscal and monetary easing.**
- **Japan faces a substantial slowdown in H2 12 as the positive growth impact from reconstruction after the earthquake starts to wane.**

Growth in Asia was weaker than expected in H1 12. In China growth is stuck below trend as domestic demand remains subdued and exports again face intensifying weakness on the back of particularly weaker growth in Europe. Nonetheless, GDP growth in China broadly stayed in the 7%-8% q/q AR range suggesting that China remains in soft landing territory. In India growth has also disappointed and there is increasing concern that the slowdown might not just be cyclical but could be structural and permanent as economic reforms in India have stalled in recent years. Despite the headwinds from exports the usually export-dependent Japanese economy performed better than expected in H1 12 on the back of resilient domestic demand supported by continued reconstruction. That said, there are signs that the economy is starting to lose steam.

With the exception of Japan and to some degree India policy flexibility remains Asia's strength. Unlike in Europe and the US there is still ample room to cut interest rates and healthier public finances leave room to ease fiscal policy. Across Asia monetary and fiscal policy are now being eased more aggressively and the coming months will be a tug of war between the weaker exports and the impact from policy easing across Asia.

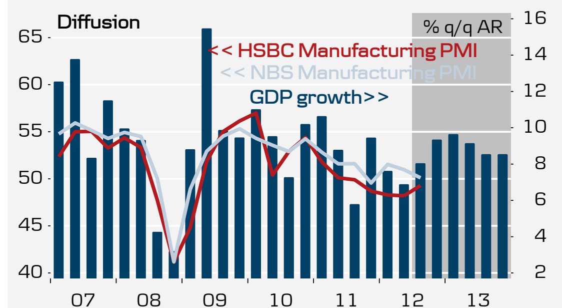
After a solid H1 Japan faces a marked slowdown in growth in H2. Even though Japan's public deficit and substantial public debt have not yet forced the Japanese government to frontload fiscal tightening, the impact from fiscal policy will be negative in H2 12 as the positive impact from reconstruction starts to wane. Hence growth is poised to slow markedly to just around 1% AR in H2. With the leading interest virtually zero, Bank of Japan will be forced to continue its asset purchase programme with particular focus on stemming the appreciation of JPY.

Growth slowing across Asia



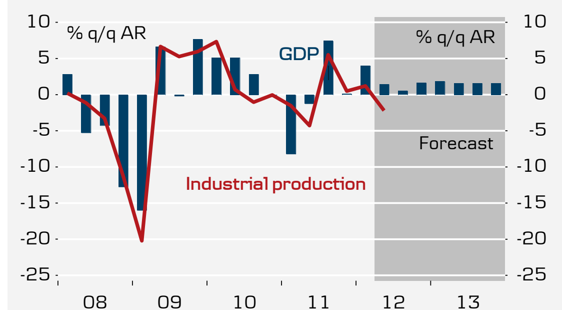
Source: Reuters EcoWin and Danske Bank

Subdued growth in China but still in soft landing territory



Source: Reuters EcoWin and Danske Bank

In Japan growth is poised to slow markedly in H2



Source: Reuters EcoWin and Danske Bank

China: Risk of property meltdown is declining

In our view four factors are decisive for how China's growth will perform over the next year: 1) The degree to which the recent weakness in domestic demand has been cyclical, 2) To what extent China can ease monetary and fiscal policy, 3) China's willingness to use this policy flexibility to boost growth and 4) How much headwind China's export will experience from slower global growth

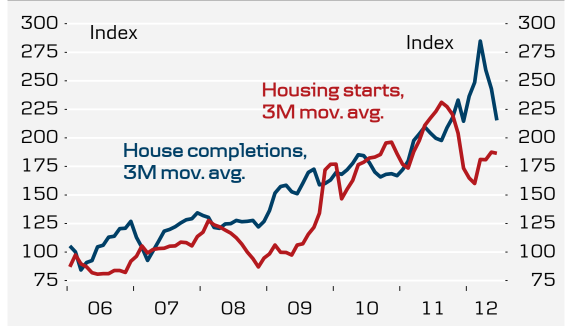
Our view remains that the weakness in domestic demand has been mainly cyclical in the sense that it has been driven by tighter monetary policy, regulatory tightening targeting the property market and a gradual normalization of fiscal policy after the big boost from infrastructure investments in the wake of the global financial crisis in late 2008. In a sense it has been a 'managed' slowdown with the goal of bringing inflation down from more than 6% during the summer last year, cooling the overheated property market.

Another prevalent view is that this time it is different because China is not just facing an ordinary cyclical slowdown but is in the middle of a severe burst of a property bubble after years of excessive investments. If this is true, the implications could be that the slowdown will turn out not to be 'manageable' as many traditional policy tools will prove to be increasingly ineffective. We will not go through all the arguments here; suffice to say we believe that China is going through a development that appears to be very similar to what other East Asian countries like Japan, South Korea and Taiwan experienced when they were at a similar stage of development as China is today. In that sense it is hard to find evidence that China's development is much more imbalanced than other countries'. That said, the developments in the other East Asian countries do suggest that China in the coming years will enter a phase where construction's contribution to growth will start to decline.

The property market has been stabilizing in recent months and at this stage it does not look like the big meltdown. Sales of new homes have been recovering since May as People's Bank of China's interest rate cuts in early June and July appear to have lured home buyers back to the market. In addition, the supply of new homes has been declining markedly in recent months as a lagged response to the drop in housing prices late last year. Hence, the demand supply balance in the property market has finally started to improve and this has also been evident in property prices. New home prices started to increase again on a m/m basis in June and July. Housing starts have stabilized but have so far only improved moderately (see top chart).

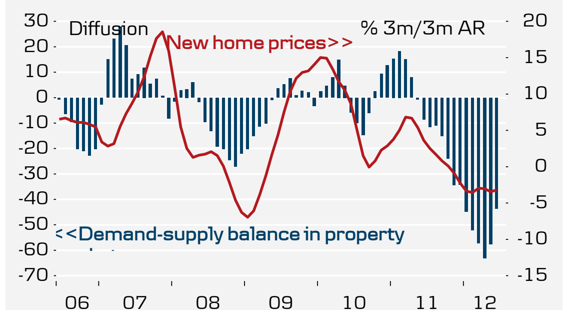
The business surveys also show tentative signs of stabilization in the property sector. Business sentiment in real estate has stabilized and even improved marginally in Q2 12. Business sentiment in construction resumed its decline in Q2 after a temporary improvement in Q1. However, both real estate and construction remain above the bottom reached in connection with the previous monetary tightening cycle in 2007/2008 and hence do not suggest that the recent downturn has been particularly severe.

Supply of new homes declining, housing starts have stabilized



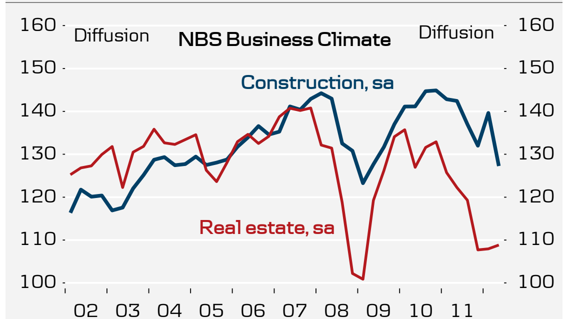
Source: Reuters EcoWin and Danske Bank

Demand-supply balance is improving and house prices have stopped declining



Source: Reuters EcoWin and Danske Bank

The recent downturn in the property market has not been more severe than the 07/08 one



Source: Reuters EcoWin and Danske Bank

This development suggests that the negative contribution to growth from the property market will be less in the coming quarters and the question is rather how much the Chinese government will allow the property market to rebound in the coming months.

Stepping up easing but still cautious

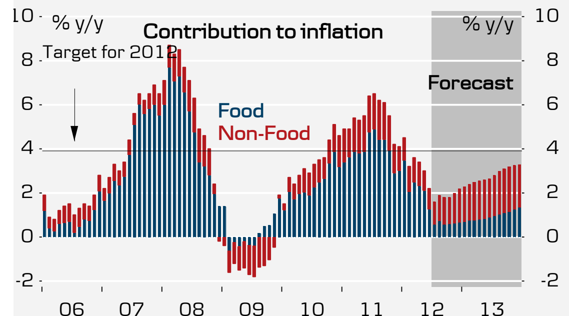
Inflation has declined substantially in recent months to just 1.8% y/y in July and is hence markedly below the 4% comfort zone the Chinese government announced for 2012. As seen in the chart, the main explanation for the drop in inflation is lower food inflation, albeit core inflation excluding food and energy has also eased.

We expect inflation to pick up slightly in the coming months around 2% y/y mainly on the back of a slight pick-up in food inflation. At this stage we do not regard the recent increase in global agricultural commodity prices as a major constraint on China's ability to ease monetary policy. While wheat prices have surged globally on the back of the US draught, the increase in rice prices globally has so far been limited. In addition, the summer harvest in China this year has been a bumper one, which should also limit the negative impact. Liberalization of electricity, natural gas and water prices could add as much as 0.5%-point to inflation over the next year and for that reason inflation will probably be back above 2.5% by year-end. Nonetheless, this remains comfortably below the 4% inflation target and hence should not be a severe constraint on monetary policy.

If needed China has ample room to ease monetary and fiscal policy. Unlike in Europe and the US there remains ample room to cut interest rates and in a worst case scenario some of the recent regulatory tightening targeting the property market could be abolished. For the government the weakness of monetary easing is that it will boost the property market. The health of central government finances also leaves considerable room to ease fiscal policy. The weakness of fiscal easing is that it has to rely on increased infrastructure spending and will be dependent on spending by local governments with weaker finances than the central government. Hence, it is important that fiscal easing is supported by increased access to financing for local governments. While the possibility of excess investment in infrastructure should not be ignored, this fear is most likely premature. When we compare China's stock of physical infrastructure with the US's, China's infrastructure stock will probably still have to more than double to catch up with the US.

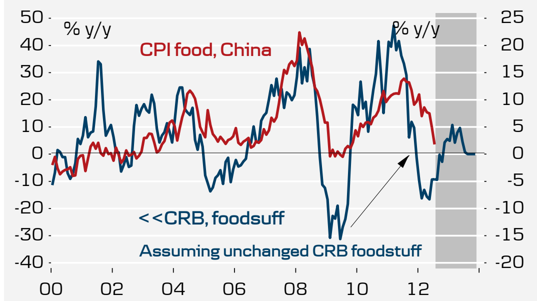
The Chinese government now believes that the stimulus measures in 2008/2009 were overdone as the economy overheated. Hence, the Chinese government will be more cautious this time and there is a risk that it could be too cautious. Until May the pace of monetary easing has been slower than we expected and People's Bank of China (PBoC) and the Chinese government were generally regarded as being behind the curve. Arguably this has contributed to China's growth slowing more than expected. However, in May the Chinese government signalled that the pace of both monetary and fiscal easing would be stepped up on the back of disappointing growth data for April, a marked decline in inflation and not least perceived increasing downside risk from the European debt crisis. Remarkably, starting early June, China's leading interest rates were cut twice in less than a month. However,

Inflation has declined fast but is poised to pick up slightly in the coming months



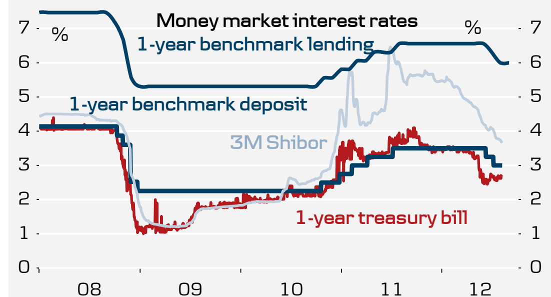
Source: Reuters EcoWin and Danske Bank

Higher food prices globally so far no a major constraint on China's monetary policy



Source: Reuters EcoWin and Danske Bank

Only easing monetary policy cautiously



Source: Reuters EcoWin

the rebound in the property market in the wake of the interest rate cuts appears to have given the government second thoughts and it increasingly looks like it prefers fiscal easing to across-the-board monetary easing. We still expect PBoC to cut its leading interest rates by at least another 25bp and the reserve requirement by 150bp but there is a risk that they will be cut less or it will happen more slowly.

While fiscal easing is being stepped up, there is still little transparency in the size of the fiscal easing. While some local governments have published infrastructure investment plans, these should be regarded as wish lists rather than actual estimates for what will actually be implemented. We assume that fiscal easing will be about 1% of GDP over the next year. Based on the experience from 2008/2009 there will be an implementation lag of around 4 months suggesting we should start to see a substantial impact from September if this pattern is repeated.

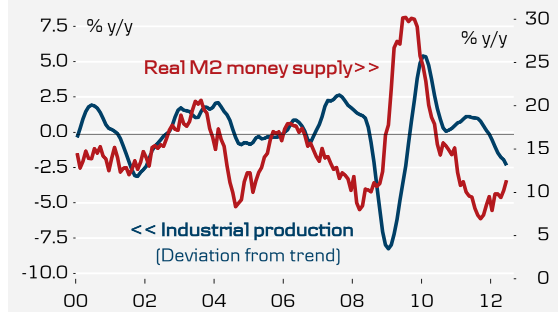
Headwinds from exports but far from as severe as in 2008

Source: Reuters EcoWin and Danske Bank

In the short term the biggest risks are now external

OECD's leading indicators and export orders in China's manufacturing PMIs indicate that export growth is poised to slow in the coming months. However, they also suggest the slowdown in exports at this stage will be far from as severe as the one China experienced in the wake of the collapse of Lehmann brothers in late 2008. Should the European debt crisis for some reason intensify, there is of course the risk that 2012/2013 could turn into a repeat of 2008/2009 with China caught in a double whammy between weak domestic demand from previous monetary tightening and a collapse in exports.

Acceleration in real money supply growth suggests growth will improve

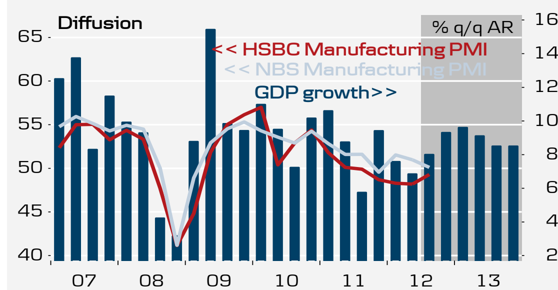


Source: Reuters EcoWin and Danske Bank

In the short run China's economy will be a tug of war between the gradual impact from monetary and fiscal easing and the negative impact from weaker exports. We now only expect a moderate recovery in GDP growth in Q3 12 to 8.0% q/q AR and weak industrial production in July suggests that there could even be downside risk to this forecast. However, in Q4 12 the impact from fiscal and monetary easing should be more substantial and GDP growth is expected to exceed 9% q/q AR as long as exports do not continue to deteriorate. China's policy response will to some degree be the buffer for any further deterioration in the global outlook.

Real money supply growth is one of the best leading indicators. Over the past 15 years an acceleration in real money supply growth has always been followed by an acceleration in growth in China, albeit the size of its lead can differ significantly. As seen in the chart, real money supply growth at the moment gives a pretty strong signal that growth should soon start to pick up.

We still expect a moderate recovery on the back of the government's easing measures



Source: Reuters EcoWin and Danske Bank

Macro forecasts for Asia

	GDP				CPI inflation				Current account			
% Change y/y	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Asia	8.7	6.1	5.9	6.6	4.2	5.3	3.6	3.6	3.4	2.3	1.7	2.0
Japan	4.4	-0.7	2.3	1.6	-0.7	-0.3	-0.2	0.1	3.6	3.5	2.2	2.7
China	10.4	9.2	8.0	9.0	3.3	5.4	2.7	2.9	5.1	2.8	2.5	2.9
Asia excl. Japan & China	8.7	5.5	5.1	5.9	7.1	7.4	6.1	5.6	1.5	1.4	0.6	0.6
India	10.6	7.2	6.1	6.9	12.0	10.4	8.2	7.3	-3.3	-2.8	-3.2	-2.9
NIC	8.5	4.0	3.4	4.3	2.3	3.6	2.9	2.7	7.2	6.4	5.8	5.7
South Korea	6.3	3.6	3.5	4.0	2.9	4.0	3.4	3.2	2.9	2.4	1.9	1.5
Taiwan	10.7	4.0	3.6	4.9	1.0	1.4	1.3	1.8	9.3	8.8	8.0	8.4
Hong Kong	7.0	5.0	2.6	4.4	2.3	5.3	3.8	3.0	5.5	4.1	3.2	3.5
Singapore	14.8	4.9	2.7	4.1	2.8	5.2	3.5	2.3	24.4	21.9	21.8	21.3
ASEAN	7.0	5.0	5.4	6.4	4.4	6.0	5.5	4.7	3.2	2.9	1.7	1.5
Indonesia	6.2	6.5	6.2	6.8	5.1	5.4	6.2	6.0	0.8	0.2	-0.4	-0.9
Thailand	7.8	0.1	5.5	7.5	3.3	3.8	3.9	3.3	4.1	3.4	1.0	1.4
Philippines	7.6	7.6	4.2	4.8	3.8	4.8	3.4	4.1	4.5	2.7	0.9	1.0
Malaysia	7.2	5.1	4.4	4.7	1.7	3.2	2.7	2.5	11.5	11.5	10.8	10.5

Source: Danske Bank, IMF

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