Global Economic Outlook

June 2015

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Overview

Global Economy—Our global growth estimate of 2.7% for 2015 is below our 3% estimate at the outset of the year. Our 2016 growth estimate stands at 3.3%.

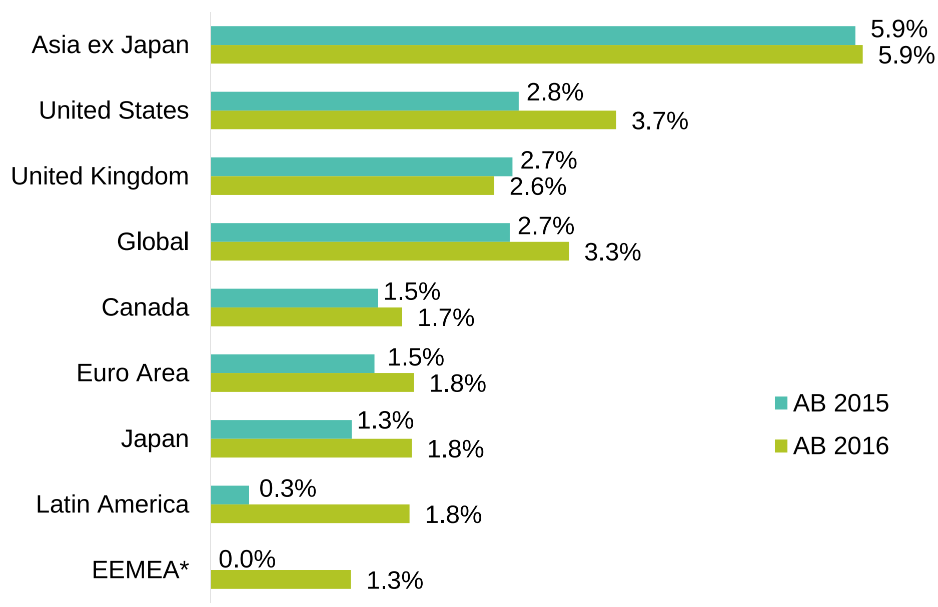
United States—Following another unusual decline in 1Q GDP, a strong rebound is expected in 2Q. Recent data on manufacturing, construction and vehicle sales have bolstered this view.

Europe—Core inflation rose strongly in May, but we expect only a gradual rise over the coming year. This should allow the European Central Bank (ECB) to implement its QE program in full.

Japan—The macroeconomic big picture has not changed, and the Bank of Japan (BoJ) is still on the sidelines.

China—Further monetary easing is needed to offset the drag on growth caused by debt restructuring.

AB World Economic Growth Forecasts



As of June 1, 2015; calendar-year forecasts
*Emerging Europe, Middle East and Africa
Source: AB

Global Outlook

Global growth projected to be 2.7% in 2015…

We expect global growth of 2.7% in 2015, down from 3% at the start of the year. The lower estimate reflects a number of factors, including recent weak US growth. Slower trade growth—the result of weaker consumption and investment growth in emerging-market economies—is another important contributor.

…and 3.3% in 2016

Our initial forecasts for 2016, however, point to broad acceleration. We expect the global economy to grow by 3.3% next year as growth in both developed and developing economies picks up. The developed economies are expected to grow at a 2.6% rate next year, compared with 2.1% in 2015, while we see developing economies growing by 4.3% versus 3.8%.

One of the key inputs into our global growth and inflation forecasts is the assumption on oil prices. The price of Brent crude is projected to be $60 per barrel in 2015 and between $65 and $70 in 2016. Recent activity makes those forecasts look reasonable; Brent averaged $57 a barrel during the first five months of the year and was last trading in the mid-$60s range. Given this oil price assumption, the global inflation rate is expected to move up a little in 2016 to around 2.4%, up from 1.8% in 2015.

Monetary policy divergences favor the USD

We expect policy decisions to dominate discussion in the second half of 2015. The Federal Reserve is still expected to raise official rates in the third quarter once the economic data confirm underlying growth trends that were masked by bad weather and the ports strike in 1Q. Recent data on manufacturing, construction and vehicle sales all suggest the pace of underlying growth will quicken. And, with core inflation running above 2% for the first four months of 2015, the Fed's data-dependent policy approach should warrant a change in official rates relatively soon, assuming policymakers stick to the script they outlined earlier in the year.

At the same time, the ECB is expected to follow through on its asset purchase program even though the early results on growth and inflation in Europe have been slightly better than expected. The policy divergence among the world's largest economies lends support to our view of a stronger US dollar.

US Outlook

GDP weakness again

The most recent data showed that US real gross domestic product (GDP) contracted by 0.7% on an annualized basis. That was well below the initial estimate of 0.2% growth. The downward revision was due to new data that showed less inventory accumulation and a much wider trade deficit.

The decline in 1Q GDP marks the third quarterly contraction during the current economic cycle, and all of them occurred early in the year (the first quarters of 2011, 2014 and 2015). As we have pointed out before, quarterly declines in real GDP are rare, and prior to the current economic cycle they only happened when the economy was on the verge of a recession or already in one.

Unusual pattern of GDP weakness not evident in jobs data

What makes these quarterly declines even more unusual is that in each period the unemployment rate declined and aggregate hours worked increased. In general, a decline in the unemployment rate over a three-month period has usually been associated with an economy growing above its potential. And when companies are adding jobs and increasing the work week for existing workers, they are doing so because sales and orders are rising and the firms need additional workers to meet the increase in business.

2Q growth rebounding

Additional evidence that the US economy is gaining steam can be seen in leading economic indicators, which rose in 1Q, and the pace of growth, which accelerated at the outset of 2Q. In fact, based on current leading-indicator trends, the US economy should be advancing 3% to 4% on an annualized basis.

Manufacturing and construction looking stronger

More evidence of a rebound in 2Q is visible in the manufacturing and construction data. The Institute for Supply Management's composite index for the manufacturing sector rose 1.3 percentage points to 52.8 in May, driven by gains in new orders and employment. The new orders index rose to its highest level of the year, suggesting stronger gains in manufacturing output to come.

Meanwhile, overall construction spending rose a much larger-than-expected 2.2% in April, and the levels of spending for February and March were revised up significantly. The revisions greatly altered the pattern of construction spending for 1Q. Consider: the initial data showed nominal construction spending contracting at an annualized rate of 6% in 1Q, and the revised data shows no change. On top of the higher level of activity in 1Q, the pace of construction spending is running at a double-digit annualized rate.

2015 growth near 3% still expected

So even though the economy underperformed in 1Q, encouraging signs in the manufacturing and construction sectors and positive signals from the labor markets tell us that the rate of GDP growth should accelerate in 2Q, meaning a growth rate of 3% for the full year is still possible.

Europe Outlook

Recovery continues and broadens

Recent economic data suggest that the euro-area recovery remains broadly on track. In May, the composite Purchasing Managers' Index (PMI) eased to 53.6 from 53.9 in April. However, it was still above its first-quarter average (53.3) and is consistent with quarter-over-quarter GDP growth of 0.4%, the same as the actual output for the first quarter. The decline was led by Germany, where the May reading fell to 52.6 from 54.1 in April. This puts the German PMI below Italy's (53.7) and Spain's (58.3), and not much higher than France's (52.0). This is a surprising development in light of Germany's strong fundamentals, though it also points to a welcome broadening of the euro-area recovery.

Core inflation jumps

The most interesting data release, however, was preliminary inflation for May, which saw the headline rate rise to 0.3% from 0% in April (and a low of –0.6% in January). The rise was only partly due to higher energy prices, with the main thrust coming from a surprisingly strong increase in core inflation to 0.9% from 0.6%. Were the increase in core inflation to represent the beginning of a trend, it would have important implications for monetary policy (the ECB would almost certainly start tapering its quantitative easing program). However, we would be wary of jumping to this conclusion on the basis of a single piece of data.

Although core inflation strips out two of the more erratic components in the consumer price index (food and energy), it would be wrong to think that it is immune to monthly volatility. Indeed, while core inflation has moved in a fairly narrow range in recent months (prior to the May release, that is), this was not the case in the early months of last year, when it seesawed backward and forward between 0.7% and 1.0%.

Spare capacity still abundant

So should we treat yesterday's data as noise or a signal? At present, we are inclined to believe it's the former. The main reason is that the economy is not growing strongly enough at the moment to make meaningful inroads into the huge amount of spare capacity in the euro area (unemployment rate 11.1%; output gap probably 2.5–3.0% of GDP). Even allowing for the drop in the euro over the past year, a sharp pickup in core inflation looks unlikely at this point (note that we do expect core inflation to rise over the coming year, but quite gradually: to an average 1.1% in 2016 from 0.8% this year).

Erratic items drove the German increase

The limited data we have for May also point to the need for some caution when it comes to interpretation. At the euro-area level, for example, the increase in core inflation was driven by services prices. While we don't have enough information to know exactly what caused this, we do know that volatile package holiday prices had a big impact in Germany, adding 0.3% to headline inflation and 0.4% to core inflation (according to our estimates). If the normal monthly path for package holiday prices is followed, this effect is likely to unwind in June, pushing core inflation lower in Germany (and, to a lesser extent, the euro area).

ECB still likely to complete its QE program

Ultimately, we won't know the extent to which the increase in core inflation for the euro area as a whole was due to temporary factors until full data are published on June 17. But given the fundamental backdrop in the euro area, the past behavior of the index and the impact that volatile package-holiday prices had on German inflation, we think the May data should be treated with a degree of caution. Core inflation has almost certainly bottomed in the euro area and is likely to rise in coming quarters, but far more gradually than indicated by the May data. And that also seems to be the view of the ECB, which confirmed that it intends to implement its quantitative easing program in full at its June press conference.

Japan Outlook

Little change in the "big picture" macro story in Japan

When it comes to Japan's macroeconomic outlook, the big picture hasn't changed a great deal in recent months. Growth has stabilized after the turmoil caused by last year's consumption tax hike, inflation has ebbed a little (thanks to the pass-through of lower energy prices) and the BoJ looks inclined to sit on its hands for a while longer.

On the growth front, 1Q GDP was a little stronger than expected—up 2.4% on a seasonally adjusted, annualized basis—with the report offering a little something for everyone. Those more negatively inclined could point to the sizeable contribution from inventory buildup. Those with a more positive bent could point to increases in consumption, housing and business investment as evidence that spending is stabilizing after last year's tax-hike hit. Optimists could probably point as well to the 3.4% year-over-year rise in the GDP deflator, the sharpest rise since the early 1980s, as evidence that deflation is lifting.

We remain tilted toward the more positive camp. The readings that are coming from a range of business surveys—from the Purchasing Managers' Index to the Shoko Chukin index (for small- and medium-size enterprises) to the Reuters Tankan survey—are consistent with an economy growing modestly above trend. Much of that strength in the last few months has been concentrated in the nonmanufacturing sector, so this isn't just a story about the weak yen helping out traditional manufacturing exporters. Our expectation is that we'll see growth of around 1.8% in 2016, slightly better than the current consensus in the market.

Judging from the tone of its latest policy statement, the BoJ appears to be sitting in this more optimistic camp too. Policymakers acknowledged that inflation, as measured by the Consumer Price Index (CPI), is likely to be running at around 0% in the near term. Still, the central bank upgraded its assessment of the growth outlook, and it continues to think that longer-term inflation expectations are rising. The combination of a relatively upbeat macro assessment and markets doing broadly as policymakers would desire (low yen and government bond yields, and strong equity and property markets) makes it difficult for us to see any material change in policy from the BoJ anytime soon. In other words, no need to do more, too early to taper.

Australasia Outlook

Commodity downside still dominates the outlook

Falling commodity prices and their spillover to incomes and spending remain central to the economic debate in Australia and New Zealand. It would not surprise us to see the Reserve Bank of Australia (RBA) reinstitute its easing bias, and there's a reasonable chance the Reserve Bank of New Zealand (RBNZ) could soon follow the RBA down the rate-cut path—perhaps as early as June.

There's a bit more optimism creeping into the consensus view on the Australian economy. The delivery of the government's budget statement in mid-May provided a further push in that direction, with its focus on tax breaks for small businesses (even though a standard analysis would suggest that the budget was mildly contractionary, not stimulatory).

In any case, this incipient optimism received a nasty knock from the capital expenditure (capex) data, a gauge of likely business investment spending over the next year or so. The estimates confirmed that the mining capex cliff has arrived—after a 20% drop in the current fiscal year, spending is likely to be cut by another 30% next year. This is not a surprise, as a number of big projects in the liquefied natural gas (LNG) and iron ore sectors will have been completed, and there is virtually nothing else in the pipeline. Still, reality bites.

The real shock, however, was in the areas outside the mining sector. Spending in the manufacturing sector is expected to fall 25%, marking the lowest level in nominal terms since the mid-1980s, while spending in other sectors (mainly services) is expected to be down 10%. So much for the "rebalancing." Reinforcing this bleak picture are April's credit growth figures. Business lending looks to have stalled again after a burst of strength earlier in 2015.

The bottom line, though, simply reinforces our view that Australia's adjustment path remains very rocky. While the RBA will likely be on hold for several months, it may reinstitute an easing bias.

Across the Tasman in New Zealand, something similar is unfolding. After peaking in early 2014, dairy prices have been under consistent downward pressure. While there was some recovery earlier this year, that has now been fully reversed. These lower prices are being reflected in Fonterra Co-operative's payout to dairy farmers—NZ$4.40/kgMS this season and NZ$5.25/kgMS next. That compares to a payout above the $8 mark in the 2013/2014 season. To put that in context, the implied income squeeze is worth something like 3% of GDP. That's a substantial shift.

And there are signs that this is now spilling over to broader business confidence. The combination of very low inflation (the core Consumer Price Index is running below the bottom end of the RBNZ's target band) and the early warning signals on growth may be enough to force the RBNZ's hand into easing in June, despite continuing worries about house-price inflation.

Canada Outlook

Oil impact could be larger than BoC expected

The Bank of Canada (BoC) warned of underperformance in the beginning of the year, citing a faster, though not larger, impact from the oil price shock than previously expected. While May employment data confirms this view, the recent GDP and trade data supports that the impact will be bigger than what the BoC initially assumed. This has been supported by recent GDP and trade data. If growth doesn't recover, additional easing or a weaker currency could become a reality. But we believe the BoC will wait awhile before acting so it can gauge the true effects from the oil plunge.

Prior to the monetary policy meeting at the end of May, BoC Governor Stephen Poloz outlined the key indicators the central bank is watching for signs of recovery. These include business creation, business investment, employment, and non-energy exports. He sad he still thought the January rate cut was sufficient and that "the impact of the [oil] shock is proving to be faster than we first expected but no larger."

Disappointing 1Q data

Yet, 1Q GDP did disappoint, falling 0.6% on an annualized basis, the largest contraction since the 2009 recession. The BoC had predicted a stall in 1Q. This data suggests the oil-price impact could be deeper than the BoC seems to think. However, Poloz did acknowledge prior to the release that the first quarter could look "atrocious." Business investment (fell at a 15.5% annual rate) and soft consumption were mostly to blame. We had pointed out that the data leading up to the release did not justify the BoC's optimism.

In its May monetary policy statement, the BoC restated its view from April that underlying inflation remained steady in the 1.6%-1.8% range, and economic growth would recover in 2Q. They did note that "risks to financial stability remain elevated," but added that thet the current policy rate remained appropriate.

The BoC also expressed concern about a stronger Canadian dollar, which was boosted by higher oil prices and US dollar weakness. Its concerns appear justified, as the trade turnaround is not happening as expected. Indeed, the April trade data shows another large merchandise trade deficit and revised data for March also showed the deficit was larger than initially estimated. On a positive note, the volume of exports rose 0.5% in April, but that still left them flat compared to the 1Q average. That means foreign trade is contributing little to overall growth—again, contrary to what the BoC had been expecting.

Still, the strong May Labor Force Survey would support the BoC view that oil's impact on the economy has been faster, but not larger than expected. Given the rise in employment (+58.9K in May), driven by the private sector, the BoC will likely wait longer to assess the effects of lower energy prices.

Emerging-Market Outlook

Latin America: Rises in US and German yields and uncertainty about the timing of a US rate hike kept volatility elevated in emerging markets this month. Uncertainty about what a Fed rate hike would do to the shape of the US yield curve also contributed, since Fed balance sheet considerations could play a role in preventing curve flattening once the US central bank begins tightening monetary policy.

Brazil: Adjustment underway

Policy adjustments are starting to produce results in Brazil. During the first quarter of the year, GDP contracted by 1.6% year over year and by 0.2% month over month, on a seasonally adjusted basis. Consumer spending dropped by 1.5% quarter over quarter, government spending contracted by 1.3% quarter over quarter and investment dropped by 1.3% quarter over quarter (and by 7.8% year over year).

Exports were the only bright spot during the period, increasing by 5.7% quarter over quarter, while imports rose by 1.2% quarter over quarter but decreased by 4.7% year over year. Inventories increased by 0.8% quarter over quarter (GDP would have contracted by 1% quarter over quarter in the absence of such buildup).

Not surprisingly, the outlook for domestic consumption remains bleak. We expect to see a deeper contraction in consumption during 2Q as the fiscal tightening exercise takes hold and a stricter monetary policy stance is felt throughout the economy. The analysis of the figures from the supply side shows the agricultural sector expanded by 4.7% quarter over quarter but both industry (–0.3% quarter over quarter) and services (–0.7% quarter over quarter) sectors contracted sharply.

According to our projections, GDP should shrink at a faster pace during 2Q, with the year-over-year change flattening out toward late 2015 before beginning to recover very gradually in the first half of 2016. Meanwhile, labor markets should remain weak, with the unemployment rate settling above the 8% mark. Year to date, the Brazilian economy has shed 163,000 jobs (it added 409,000 in the first four months of 2014). Since October, it has lost 740,000 jobs.

Weak aggregate demand, coupled with nominal and real currency depreciation, is also reflected in the gradual adjustment of Brazil's external accounts. May's trade balance showed a US$2.8 billion surplus, about US$361 million higher than expected. On a 12-month rolling basis, the deficit dropped to US$1.5 billion from US$3.5 billion in April. The interannual comparison shows that exports and imports are falling, although imports contracted at a much faster pace.

Lower commodity prices are behind the fall in export values, while weak demand explains the fall in imports. Chances are good that the annualized trade balance will become positive by the third quarter of the year, and will end the year at around US$5 billion, compared to a US$4 billion deficit at the end of 2014. Improvement in the trade account should also result in a smaller current account deficit, especially in US-dollar terms. As a share of GDP, though, the decline will likely be smaller because the economy is expected to slip into recession this year.

On the fiscal front, Brazil is making progress—but slowly. April's public sector primary surplus was BRL13.4 billion, a shade above expectations and the second consecutive month with a positive result. Over a 12-month period, however, the deficit widened to BRL42.6 billion, or 0.8% of GDP, still very far from the 1.2% surplus targeted by the economic team for the current year. It is unlikely Brazil will reach this target, but as long as the authorities continue to deliver monthly surpluses, chances are good that investor and ratings-agency sentiment toward the country will not worsen. Both investors and the ratings agencies should appreciate that Brazil is engaging in fiscal reform even as it faces headwinds from slower economic growth.

Regarding monetary policy, current and expected activity figures suggest that the monetary tightening cycle should be near its end. The central bank still needs to repair its credibility, and doing so might require some residual rate hikes. But if the government keeps tightening fiscal policy, the central bank can probably afford to take a less aggressive stance, as weakening domestic demand should help to reduce inflation.

Mexico: Steady and slow going

Mexico's official statistics office Inegi reported that the open unemployment rate reached 4.3% in April, a shade above expectations. Inegi also reported that its leading indicator dropped by 0.8% month over month in April. Recent economic activity figures depict a slow-growing economy, with 1Q data possibly affected by the disappointing growth performance in the US.

In its latest quarterly inflation report, Banco de México (Banxico) said it saw no evidence of internal imbalances now that inflation has converged to the 3% medium-term target and is not expected to deviate from that mark over the next quarter. This is especially so because the slower-than-expected recovery in economic activity has kept production capacity slack.

What's more, inflation expectations are well anchored. The central bank suggested that there are no price pressures in goods and factors markets or on the external accounts. Banxico attributed the depreciation of the currency largely to the drop in oil prices and to expectations of normalization of US monetary policy. It said it would remain vigilant and would watch for evidence that a weaker currency was starting to push up domestic prices. So far, the low level of inflation pass-through is in line with central bank expectations.

As for the growth outlook, it was mainly changes in the external environment, including weaker US demand, that prompted the central bank to cut its 2015 GDP projection to a range of 2%–3% from the previous 2.3%–3.5%. For 2016, it marked its projection down to 2.5%–3.5% from 2.9%–3.9%. The bank also adjusted its expectations for formal job creation and now expects the economy to create 580,000 to 680,000 jobs this year and 600,000 to 700,000 in 2016.

Policymakers also urged the development of domestic sources of growth to make Mexico less dependent on US economic activity and oil prices. That was seen as a vote of support for the government to complete its ongoing structural reforms.

The main upside risks to inflation are associated with the exchange rate, while downside risks are related to further energy and telecom price reductions, as well as possible peso appreciation.

The central bank now expects the current account deficit to be US$27.7 billion (2.3% of GDP) this year, US$1 billion lower than its previous estimate, and US$29.7 billion (2.3% of GDP) in 2016, down US$2 billion from its earlier estimate.

Taken together, the downward growth revision coupled with the message of stable inflation and no major imbalances reinforces our view that Banxico is in no rush to increase its reference interest rate. Unless there's a dramatic and sudden weakening of the peso, the central bank is not likely to move before the Fed does.

On the political front, June 7 will bring midterm elections, with the entire lower house (500 seats) as well as governors, legislators and municipal heads in 16 states and Mexico City facing voters. While the elections are not expected to move markets, they may result in some moderate reshaping of the political landscape, with potentially important medium-term consequences.

The latest surveys show that the PRI–Green Party coalition is ahead. Together, the two are projected to win 40% of the vote, followed by the PAN party, with 25%, and the center-left PRD and MORENA parties, with 15% and 9%, respectively. MORENA is a relatively new group led by former PRD presidential candidate Cuauhtémoc Cárdenas and is projected to gain support at the expense of the PRD. MORENA may become a strong political force, especially in Mexico City.

Another interesting development is the emergence of Jaime Rodríguez, an independent candidate in the state of Nuevo León with a realistic chance of becoming governor. If he wins, León could break the hegemony of the traditional parties and open the door for other outsiders across the country.

Weak exports overshadow growth outlook but support policy easing

Asia ex Japan: The trade data released across the region show continued weakness in global demand, while domestic indicators also show little sign of a recovery in the coming quarters. This will ensure a continued tame inflation outlook despite the recent bottoming out of global oil prices. We believe that the persistent weakness in real economic activity will increase many Asian central banks' conviction to maintain an easing bias in monetary policy even though the US Federal Reserve is expected to resume the rate-hike cycle sometime in the second half of 2015. We expect China will continue to trim lending rates and the reserve requirement ratio (RRR) to counteract the growth headwinds from structural reforms. We also expect central banks in Korea, Thailand and Indonesia to cut policy rates further in the coming quarter or so.

The exception may be India. The Reserve Bank of India (RBI) recently cut its policy rate by another 25 basis points, but we think the bar for more rate easing has become quite high, given that the worst of the disinflation cycle is possibly over. Moreover, a worse-than-normal dry monsoon season has raised concern of a resumption of food price inflation in the near term. The RBI, in its latest policy meeting, flagged the risk of medium-term inflation again and the need to stay prudent in order to check inflationary expectation.

Korea under pressure to ease

The pressure on the Bank of Korea to ease is particularly severe, especially with renewed double-digit contraction in May's export growth (–12% year over year), as well as signs of inventory rebuilding, prolonged consumption weakness and the absence of a supplementary budget to buffer growth. We expect the central bank will soon further downgrade its growth and inflation forecasts, which will justify another 25–basis point rate easing in the coming quarter. Thereafter, we have factored in at least one more rate cut before the end of 2015 given the dire state of the economy.

China needs monetary easing to offset growth headwinds, but RMB devaluation unlikely

China's local-government debt swap into municipal and corporate bonds will dominate the policy scene in the coming year. Further monetary easing is likely to come with it, to help smooth the debt-restructuring process. We expect liquidity easing will continue to come in the form of lending rate cuts, RRR reduction, selective liquidity relaxation (especially for mortgage lending) and infrastructure investment. It will be a tough balancing act to prevent liquidity injections from leaking into the already red-hot domestic equity markets (via margin lending), though. Moreover, we still see a slim chance of renminbi (RMB) devaluation as global demand for the Chinese currency increases during the process of RMB internationalization. Indeed, there is still no convincing evidence that China is losing its export competitiveness because of its stable exchange rate, and we see that weak global demand has dragged down China's exports in much the way it has the exports of its neighbors.

EEMEA economies begin to reflate…

Emerging Europe, Middle East and Africa: The past month's data releases have provided further evidence of reflation in the region outside Russia, both in terms of accelerating real activity growth rates (data generally through March) and rising inflation or receding deflation (data through April or May). Our aggregate real monthly GDP proxy accelerated to approximately 3.5% year over year from a two-year low of 1.4% in January. Meanwhile, inflation rose in Turkey and South Africa and deflation eased in Poland and Hungary.

…except in Russia

In contrast, Russia's recession deepened after a stronger-than-expected first quarter, while inflation started to decline. Year-over-year contraction in the monthly real GDP proxy deepened to 4.4% in April from an average of 2.3% in the first quarter, and headline inflation eased to 15.8% year over year in May from more than 16% in the previous three months.

Diverging implications for monetary policy…

…across central Europe…

Despite some general similarities in the region outside Russia, the implications for monetary policy have been far from uniform. This is because of different initial conditions and different political considerations. In Hungary and Poland, inflation remains in negative territory and will struggle to reach central bank targets in the foreseeable future. This is why the central banks in central Europe are still a long way from beginning to withdraw their monetary policy accommodation. But while further easing in Poland is unlikely, Hungary's openly "government-friendly" central bank will continue to cut interest rates to support growth. It even rejiggered its monetary policy toolbox in early June to make it easier for the sovereign to finance itself from the domestic market. The new three-month deposit facility will replace the two-week deposit rate as the key monetary policy instrument. Along with a few regulatory changes, it's expected to force the local banks to increase their holdings of government-issued securities over the next two years.

…in South Africa…

In comparison, central banks in South Africa and Turkey have little or no room to remain accommodative. South Africa's inflation is now forecast to breach the upper end of the 3%–6% target range in the first quarter of 2016, with distinct upside risks should a higher-than-expected hike in electricity prices materialize in July or should the upcoming mining-sector wage settlements raise risks of more generalized inflationary pressures from wage growth. South Africa's central bank turned decisively more hawkish at its last meeting in May and should resume its tightening cycle at its September MPC meeting, if not earlier as some seem to expect.

…and Turkey

That said, Turkey's central bank (CBRT) is in no rush to hike its policy rate, despite the fact that the inflation rate hasn't dipped inside the 3%–7% target range for more than two years. Hiking rates would be politically very difficult ahead of the critical June 7 parliamentary elections. But the the CBRT has at least managed to dodge (or fend off) mounting requests for further easing. But if the election result is not market friendly and doesn't usher in another AKP-led government with a sufficiently credible new economic team, the market may force a rate hike on the CBRT. The impending start of a hiking cycle by the US Fed may make this even more likely. Against this backdrop, calls for the central bank to broaden its mandate to include support of growth and employment as an additional (albeit secondary) objective may grow louder. These have so far been unhelpful for a central bank that is already struggling with credibility.

In Russia, more rate cuts in store

In contrast, Russia's central bank seems to have no hesitation in using the data on the shrinking economy and slowing inflation as a justification to deliver additional bold rate cuts this year and possibly in 2016. An unhelpfully strong ruble (which has rolled back some of the critical adjustment required to contain the fiscal and balance-of-payments deterioration in the face of collapsed energy prices) is yet another strong argument for more easing. We now believe the policy rate may be reduced to single digits before the end of the year on the assumption that inflation will slide to as low as 6% during the first half of 2016.

Without the cure-all of higher oil prices, Nigeria will face tough decisions

Frontier Markets: As oil prices begin to dip lower again, African oil producers will feel pressure to make additional reforms in the face of slowing growth. In Nigeria, the inauguration of President Buhari on May 29, which marked the first transition of power to the opposition, presents an opportunity for deep reform. Sadly, we believe hopes may be too high. Buhari faces an uphill battle. Reserves remain low and under pressure, and growth is noticeably slower (3.9% year over year in the first quarter, from 6.4% in the first quarter of 2014) owing to the weaker currency and oil-price declines.

Even on the security front—Buhari's chief concern—we still see problems. The Boko Haram insurgency in the north remains active despite the military's recent gains. In Buhari's own party, the All Progressives Congress (APC), many members are from the previous ruling party and defected when they sensed a shift in the country's mood.

Lastly, significant arrears positions have been built up from the prior administration with reports that wages and goods have not been paid for. Even in the run-up to the inauguration, the country faced a significant fuel crisis, with more than US$1 billion owed to fuel marketers. This may or may not get resolved. For these reasons we believe the continent's largest economy will face significant headwinds on the fiscal and external fronts, and we expect growth to remain low and the country to increase debt to fund its transition.

AllianceBernstein Global Economic Forecast

June-15

	Real Growth (%)				Inflation (%)				Official Rates[1] (%)		Long Rates[1] (%)	
	4Q/4Q		Calendar		4Q/4Q		Calendar		EOP	EOP	EOP	EOP
	2015E	2016F	2015E	2016F	2015E	2016F	2015E	2016F	2015E	2016F	2015E	2016F
Global	3.0	3.1	2.7	3.3	2.0	2.4	1.8	2.4	1.93	2.22	3.07	3.45
(PPP Weighted)	**(3.5)**	**(3.6)**	**(3.0)**	**(4.3)**	**(2.5)**	**(3.0)**	**(2.4)**	**(2.8)**				
Industrial Countries	2.5	2.3	2.1	2.6	1.0	1.9	0.4	1.9	0.48	1.04	1.67	2.17
Emerging Countries	3.9	4.4	3.8	4.3	3.8	3.5	4.1	3.4	4.53	4.37	5.63	5.82
United States	3.1	3.1	2.8	3.7	1.3	2.7	0.4	2.7	0.75	2.00	2.60	3.20
Canada	1.1	2.2	1.5	1.7	0.3	0.8	0.4	0.7	0.75	0.75	1.65	1.90
Europe	2.1	1.9	1.7	2.0	0.8	1.3	0.3	1.3	0.14	0.28	0.98	1.49
Euro Area	1.9	1.8	1.5	1.8	0.9	1.2	0.3	1.2	0.05	0.05	0.75	1.25
United Kingdom	3.0	2.1	2.7	2.6	0.5	1.5	0.1	1.5	0.50	1.25	2.00	2.50
Sweden	2.5	2.1	2.7	2.4	0.3	2.0	0.1	1.4	-0.35	0.00	0.90	1.50
Norway	1.8	2.4	1.6	2.1	1.7	2.0	1.8	2.1	1.00	1.50	1.75	2.25
Japan	2.7	1.4	1.3	1.8	0.6	1.5	0.8	1.2	0.10	0.10	0.55	0.75
Australia	1.9	2.1	1.9	2.0	1.6	2.0	1.4	2.0	2.00	2.00	2.55	3.25
New Zealand	1.8	1.3	2.5	1.5	0.7	1.7	0.2	1.6	3.00	2.50	3.35	3.25
Asia ex Japan	5.8	6.0	5.9	5.9	1.9	2.7	2.0	2.4	2.55	2.56	3.73	3.99
China[2]	6.6	6.5	6.6	6.5	1.5	1.9	1.6	1.8	1.50	1.50	3.20	3.50
Hong Kong[3]	2.2	3.2	2.0	2.8	2.4	2.5	3.0	2.3	0.75	1.25	1.63	1.41
India[4]	6.9	7.3	7.1	7.2	5.7	6.2	5.3	5.9	7.25	7.25	7.60	8.00
Indonesia[5]	5.1	5.3	4.8	5.1	4.7	4.9	5.6	4.6	7.00	6.50	6.50	6.80
Korea[6]	2.9	3.0	2.7	3.1	-0.9	1.9	0.0	1.0	1.25	1.25	2.10	2.00
Thailand[7]	3.3	3.9	3.3	3.9	0.7	2.4	0.0	2.0	1.25	1.25	1.70	2.10
Latin America[8]	1.1	2.3	0.3	1.8	5.8	4.3	5.9	4.5	8.77	8.20	9.63	9.37
Argentina	0.0	1.3	-0.4	0.7	20.0	25.0	23.0	29.0				
Brazil	-0.2	1.5	-1.3	1.0	8.0	5.4	8.3	5.7	13.50	11.75	12.70	12.00
Chile	3.5	4.0	2.9	3.6	3.0	3.0	3.0	3.0	3.00	3.75	4.60	5.00
Colombia	3.0	3.0	2.9	3.1	3.5	3.3	3.8	3.5	4.50	5.25	7.20	7.50
Mexico	3.3	3.8	2.9	3.3	3.3	3.2	3.2	3.1	3.25	4.00	6.25	6.45
EEMEA	0.1	1.2	0.0	1.3	8.9	5.8	10.2	5.9	7.52	7.16	8.63	9.01
Hungary	2.8	3.0	3.0	2.9	1.9	2.5	0.0	2.4	1.50	2.50	3.60	4.50
Poland	3.9	3.5	3.4	3.7	0.5	1.8	-0.6	1.5	1.50	2.25	3.35	4.00
Russia	-2.6	-0.5	-2.5	-0.5	12.4	6.5	15.7	7.2	9.50	8.00	10.10	10.15
South Africa	2.2	2.2	2.4	2.3	6.0	5.7	4.9	5.8	6.00	7.00	8.60	9.40
Turkey	3.3	3.5	2.6	3.5	8.0	7.0	7.5	6.1	8.00	9.00	9.10	9.90

1) Official and long rates are end-of-year forecasts.
Long rates are 10-year yields unless otherwise indicated.
2) China: Official rate is considered the 7D repo rate and 10-year government bond yield.
3) Hong Kong: Base rate and 10-year exchange funds yield
4) India: Overnight repo rate and 10-year government bond yield
5) Indonesia: Intervention rate and 10-year government bond yield
Source: AllianceBernstein

6) Korea: Overnight call rate and 10-year government bond yield
7) Thailand: 1-day repo rate and 10-year bond yield
8) Latin American Inflation and Rates includes Brazil, Chile, Colombia, and Mexico
Note: Real growth aggregates represent 31 country forecasts, not all of which are shown.
Note: Blanks in Argentina are due to the distorted domestic financial system so we do not forecast.