Global Economic Outlook

May 2015

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Overview

Global Economy—We now expect global gross domestic product (GDP) to grow by 2.8% in 2015 and 3.2% in 2016, driven by the recovery in emerging markets.

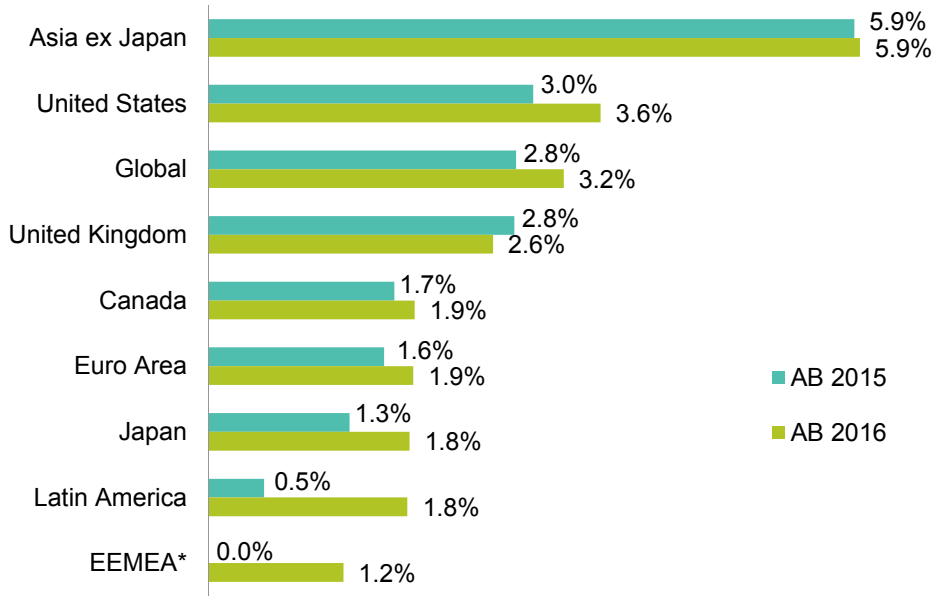
United States—The US economy grew very little in 1Q, held back by weather and a ports strike; 2Q GDP is expected to post a solid rebound.

Europe—The recovery has gathered pace, and inflation should soon move back above zero. But the European Central Bank is unlikely to taper its bond purchases.

Japan—Wage-bargaining outcomes give the central bank breathing room.

China—The central bank is unlikely to embrace quantitative easing.

AB World Economic Growth Forecasts



As of May 5, 2015; calendar-year forecasts
*Emerging Europe, Middle East and Africa
Source: AB

Global Outlook

Slow start to 2015

Our global growth estimate for 2015 was lowered to 2.8% this month, down 0.2% from last month's projection. A weaker start to the year in the developed economies—mainly driven by the scant 0.2% annualized gain in US 1Q GDP—was primarily responsible for the downward revision.

Strong rebound in 2016

Preliminary estimates for 2016 show global growth accelerating to 3.2%, the fastest annual advance in a few years. The acceleration is based on a more optimistic view on the emerging-market economies, where growth is expected to increase 4.3% in 2016, compared with 3.8% in 2015. Growth in the developed economies is expected to increase to 2.6% in 2016 versus 2.2% in 2015.

Manufacturing sector is soft

Global economic weakness is centered in the manufacturing sector. The sector has been recording uneven and modest gains over the past few quarters, a result of the slowdown in global trade and the fallout from the sharp collapse in the energy sector. The drop in commodity prices, especially oil, forced a large and wide-scale cutback in energy capital spending, which directly affected a number of durable- and nondurable-goods companies around the globe. The recent recovery in oil prices creates the potential for a broader recovery in manufacturing in the second half of 2015.

Service and construction sectors rebound

By contrast, the nonmanufacturing sector, which includes a broad range of private sector service industries and construction, has continued to grow at a relatively solid pace, and more recent data points to an acceleration in the current quarter. That's especially true for some of the developed economies, like the US, the euro area and the UK, where surveys of nonmanufacturing activity for April stood at relatively high levels, signaling stronger 2Q GDP growth.

Global bond volatility

Global bond yields have moved higher over the last month. For example, German 10-year bund yields, which hit a low of 0.05% in April, jumped to 0.65% in early May. Other global bond markets, including the US, have seen rates move in a parallel fashion.

It's hard to pinpoint the main reason for the sharp rise in bond yields. Clearly, the recovery in global oil prices, which are up about 20% from their lows and suggest that low global inflation has passed, is one factor. Stronger money and credit growth in Europe, which come on the heels of the QE program, are also factors. They suggest the program is gaining traction more quickly than markets had expected.

We still favor the US dollar

The broad sell-off in the US dollar is related to weak economic growth and the expectation that US policy rates will be kept at zero longer than initially expected. We still believe the Federal Open Market Committee will raise official rates over the next several meetings, and as a result, still favor a bullish view on the US dollar.

US Outlook

Weak 1Q again due to…

Economic growth has always been uneven, but the quarterly pattern in the current cycle has been unique, especially at the start of a year. In three of the past five years, GDP either contracted or stalled. The reasons varied somewhat, but weather has been a common theme in each one. This year, there are some other factors at work as well.

Real GDP grew at just a 0.2% annualized rate in 1Q, well below consensus estimates of around 1%. The weakness was related to some fundamental factors and temporary influences.

…lower energy capex,…

First, the sharp plunge in energy prices triggered an abrupt and large reduction in capital spending in the energy sector. A decline was expected, but not such a large one. Spending on mining and exploration (essentially oil and gas rigs in operation) plunged 48% on an annualized basis. Spending on industrial machinery plunged 8% annualized, with the decline concentrated in oil and gas equipment.

…ports strike…

Second, the ports strike on the West Coast disrupted the flow of foreign trade during the first two months of the quarter. Surprisingly, though, the initial estimates showed that the bulk of the impact was concentrated on the export side of the ledger. According to the GDP report, real merchandise exports plunged 13% annualized, while imports of merchandise rose nearly 2%. These preliminary estimates could be changed substantially when the March trade figures are released in mid-May.

…and weather

Third, the bad weather that blanketed much of the Northeast and Midwest hurt construction activity for commercial, residential and public works, and delayed consumer spending in various categories.

However, there are several reasons to expect a strong rebound from the first quarter's paltry rate of growth.

First, real disposable income advanced 6.2% annualized in 1Q, due to continued gains in payrolls, a pickup in wages and the fall in headline inflation, referred to by some as the energy dividend. Strong income gains and relatively high savings point to stronger spending gains ahead.

2Q GDP will rebound

Second, labor market data continues to point to more payroll gains and higher wage gains, Jobless claims in April are averaging 284,000, one of the lowest monthly totals on record. In addition, the 0.7% gain (or annualized gain of 2.8%) in total compensation from the US Bureau of Labor Statistics' employment cost series indicates that a broad gain in wage growth is underway.

Third, there appears to be a large backlog of construction projects that were either delayed or slow to get started in 1Q due to bad weather. The FW Dodge contract award index over the past three to six months has shown the greatest number of projects and dollar awards since 2006. We suspect spending on home improvement will also rebound, given the firmness in house prices, better job prospects and greater access to credit.

Expect 4% plus in 2Q and 3Q

At this point, it is hard to gauge the scale of the rebound because there are many crosscurrents at work. Last year, after a contraction of 2% annualized in 1Q, real GDP growth rebounded to post gains in the 4.5% to 5.0% range in 2Q and 3Q, with private sector growth averaging 5.2%. Yet, unlike last year, there will probably be some retarding influences on GDP in 2Q and 3Q from the energy sector—though the scale of the cutbacks should be a lot smaller compared to 1Q. So at this point, we are estimating gains in 2Q and 3Q real GDP of around 4% annualized.

Europe Outlook

The recovery continues

Recent data suggest that the recovery in the euro area remains on track. In April, the composite Purchasing Managers' Index (PMI) eased to 53.9 from 54.0 in March. However, this was still up from the first-quarter average (53.3) and is broadly consistent with quarter-on-quarter GDP growth of 0.4%. As interesting as the aggregate number itself was the country breakdown. While the composite PMIs slipped back in Germany and France to 54.1 and 50.6, respectively, Italy (53.9 from 52.4) and Spain (59.1 from 56.9) registered strong gains. Spain is likely to be the fastest-growing large euro-area economy this year, so its strong reading is not a major surprise. But the Italian economy has performed very poorly in recent years, and signs of improvement there are to be welcomed.

Strong 1Q likely, especially for the consumer

Although GDP data for the first quarter have not yet been published, available indicators point to a strong outturn. This is likely to be the case for consumer spending, with retail sales rising by 0.7% during the quarter and car registrations posting a 4.7% increase. Industrial production data are not yet available for March, but the average level of output in January and February was 0.7% higher than in the fourth quarter. And unemployment declined by 303,000, the biggest quarterly decrease since 2007. As a result of these developments, our monthly GDP model points to first-quarter growth of 0.5%, which would be the best since the first quarter of 2011.

Inflation set to move back above zero

Eurostat's preliminary estimate showed inflation rising to zero in April, from (0.1)% in March and a low of (0.6)% in January. Recent oil price developments suggest that inflation should rise above zero in May, and we expect it to move back above 1.0% in December, when positive base effects from last year's oil price decline kick in (assuming the oil price stabilizes around current levels). The outlook for core inflation is rather different. This measure of inflation (which excluded food and energy prices) was unchanged at 0.6% in April and is likely to rise only gradually over the next year or so given the huge amount of economic slack still present in the euro area (we expect core inflation to average 0.9% in 2016).

ECB unlikely to taper its bond purchases

Given the improved performance of the euro-area economy since the European Central Bank (ECB) launched its quantitative easing program in March, there has been some speculation that the central bank might seek to taper its bond purchases before September 2016. We continue to think this is unlikely. As pointed out above, headline inflation is likely to rise in coming quarters, but the recovery is most unlikely to be strong enough to generate a material increase in core inflation. And if this is the case, it's hard to see how the ECB will be able to conclude that there has been a "sustained adjustment in the path of inflation that is consistent with our aim of achieving inflation rates below, but close to, 2% over the medium term"—the appropriate benchmark for deciding whether to continue, extend or taper bond purchases.

But bund yields start to rise

Core euro-area bond markets have sold off strongly in recent weeks, with the German 10-year bond yield rising from a record low of 0.05% to 0.60%. We regard this as a correction from unsustainably low levels. Indeed, even after their recent rise, it is difficult to justify the current level of German yields on a fundamental basis. However, it's important to realize that prospective ECB purchases far exceed net bond issuance in Germany and almost all other euro-area countries this year, which is likely to exert downward pressure on yields. The path toward higher bund yields is therefore unlikely to be a smooth one, in our view.

Japan Outlook

Positive wage bargaining outcomes allow BoJ to hold the line on more QE

One theme that is becoming prevalent among policymakers—in developed market economies, at least—is the rising importance of wage-setting behaviors as an indicator of both the degree of slack in the economy and the state of inflation expectations.

Nowhere is this truer than in Japan. Shifting inflation expectations higher is a critical part of the Bank of Japan's (BoJ) strategy. Governor Haruhiko Kuroda argues that while inflation expectations are largely formed in a backward-looking manner, a credible and well-communicated shift in the central bank's policy regime can also have a big influence. He also agures that a shift in the distribution of inflation expectations is visible in the surveys of Japanese inflation expectations today.

That said, he acknowledges that the area of wage negotiations is where the rubber hits the road on this debate. Any change in expectations will be revealed in the reality of pay settlements. In Japan, this process is being helped by the consistent tightening in the labor market in recent years. That's clearly evident in both the fall in the unemployment rate and, perhaps more importantly, the assessment of the availability of labor by businesses—e.g., the BoJ's quarterly tankan survey. On the latter metric, the labor market is tighter than it ever has been, with the exception of the height of the 1980s "bubble" era.

The combination of labor shortages, a BoJ regime change and political pressure is now showing up in higher wage growth. Figures from the Japan Business Federation, the employer group better known as Keidanren, show that this year's "Shunto" (spring offensive) negotiations delivered average wage increases of 2.59%—an improvement over last year's 2.34% outcome.

Those numbers seem a little hard to square with aggregate wage growth figures which, while showing an acceleration, still have the increases running at around 0.5% year over year. That's because the Shunto figures include seniority-based annual increases (around 1.5%) and a "base-up" component. In traditional Japanese corporations, the oldest (highest-paid) cohort retires each year, while a fresh crop of new graduates (or other young, entry-level employees) starts from the bottom of the totem pole. So it's perfectly consistent for the wage of the average worker to rise, even if the wage bill per employee is static.

In any case, it's the base-up figure that's worth keeping an eye on. As Kuroda points out, that figure was positive last year for the first time in almost 20 years. And this year's figure was even larger. He's using that as prime exhibit no. 1 in his case that there's no urgency to accelerate the pace of monetary easing, even as the BoJ revises inflation forecasts lower.

Australasia Outlook

Despite improved sentiment, our view on Australia is little changed

Over the past few weeks, sentiment toward the Australian economy has started to improve slighlty. Better employment figures, a slight lift in business confidence and a bounce in the iron ore price have all contributed to this. As a result, expectations of further rate cuts by the Reserve Bank of Australia (RBA) have been pared back, and the Australian dollar has firmed a little.

But have the fundamentals changed all that much? In our view, the answer is no. Our relatively pessimistic view of Australia's outlook has been based on two central tenets. First, the downswing in the commodity supercycle will continue to cast a very long shadow, and the adjustment to lower commodity prices is a multiyear affair. Second, the so-called "rebalancing" of growth from the mining sector to the non-mining sector will not be smooth.

Neither of those scenarios has changed. On the first, the bounce in the iron ore price from below US$50 per tonne to US$60 might make for good headlines (a 20% jump!), but it doesn't amount to much in the context of the downtrend that has brought this price down from US$180. And it certainly is not going to spark the same sort of powerful transmission mechanism (higher company tax revenues that allow for broader tax cuts) that was central to the commodity boom phase.

On the second tenet, it is true that employment growth has firmed a bit and that the unemployment rate is no longer rising. But that's largely a reflection, in our view, of the housing construction upswing. Once that upswing starts to top out, the lopsided nature of the "rebalancing" will become apparent. There is still little sign of enthusiasm for business expansion in nonmining sectors. A further rise in unemployment seems inevitable.

So, what are the triggers or catalysts that could potentially push sentiment back the other way? In our view, there are four things to watch: (1) a return to more dovish RBA rhetoric; (2) a poorly delivered Commonwealth budget (due on May 12); (3) signs that housing activity is starting to peak; and (4) disappointing job growth.

All four catalysts are not necessarily required. But, for the record, that's what we expect, and we see no reason to change our big-picture view.

Canada Outlook

More front-loaded impact of oil price on growth

Canada's economy is expected to have stalled in 1Q. February real GDP growth came in roughly flat and the Bank of Canada (BoC) revised its 2015 forecast down to 1.9% from 2.1%, blaming a more front-loaded impact of the oil price shock than previously predicted. However, as this oil shock begins to dissipate, real GDP growth is projected to rebound in 2Q and strengthen mid-year, helped by the easing in financial conditions and improving US demand. The BoC forecasts 2.5% real GDP growth in 2016 and 2.0% in 2017.

BoC Governor Stephen Poloz did say that "interpretation of the recent data is complicated by the slowdown in the US in the same quarter, which no doubt was partly due to severe weather and a port strike in Los Angeles." Even though Canada also experienced harsh weather affecting consumer spending and the spring Business Outlook Survey suggests weakening, other areas of the economy that were expected to lead the recovery have been living up to expectations. As mentioned, the strengthening US economy as well as a lower Canadian dollar will help support the nonenergy contribution to Canada's recovery. Poloz believes that "this projected growth profile gets us back on track to use up our excess capacity around the end of 2016, at which time inflation will settle sustainably on 2 percent."

Regarding inflation, total consumer price index (CPI) inflation is running below the 2% target at around 1%. However, the BoC reiterated that it does not react to every fluctuation in price or to what it deems will be temporary factors (a drop in oil price, CAD depreciation, etc.). Instead the focus remains on "underlying inflation," which excludes these temporary factors. While there is downward pressure on inflation and a widening of Canada's output gap as a result of weaker growth in 1Q, Poloz said "the anticipated recovery in growth means that the output gap will be back in line with the previous trajectory later this year. Consequently, the effects on core inflation of the lower dollar and output gap will continue to offset each other."

Another rate cut off the table

The BoC uses a $55 per barrel Brent oil price in its assumptions and believes that while the negative impact of the oil price decline is appearing sooner than expected, the total drag over the projection horizon is estimated to be about the same as in the January report. The BoC left the overnight policy interest rate at 0.75% at its April meeting, and we believe the bank will leave the overnight rate unchanged for the rest of the year. The rate cut it made in January is sufficient for now and should help mitigate financial pressure.

Finally, risks to the BoC's projections do exist, but they are roughly balanced and will be reassessed as new data becomes available. A housing market correction and higher US growth are still risks, but the main risk for now will remain, in Poloz's words, "the size and duration of the negative impact of the oil shock, weighed against the positive forces that are building in the non-energy export sector ."

Emerging-Market Outlook

Brazil: Petrobras' announcement a net market positive

Latin America: Recent weaker-than-expected US economic data in principle provided a more favorable backdrop for emerging-market assets. But the sharp and unexpected rise in German bund yields since late April, and the accompanying rise in US Treasury yields, gave emerging-market participants pause.

By releasing its audited financial results for fiscal year 2014 on April 22, state-controlled oil company Petrobras avoided a possible technical default that could have accelerated its debt payments. What's more, the results were fully endorsed by the company's auditors, much to the relief of financial markets. Petrobras recognized a R$6.2 billion loss associated with graft (the so-called Car Wash investigation), and also a R$44.3 billion charge because of asset impairments. Those figures were higher than what the local media had suggested they would be and suggested that the company was committed to being transparent. Petrobras' management indicated that the figures are subject to change in the coming weeks and months, possibly as the result of ongoing judicial investigations.

The release of the audited financials represents a positive development for the entire Brazilian credit complex. In the case of Petrobras, it removes the veil of uncertainty that long shadowed the company, and it lowers the risk of downgrades. Challenges for the company remain substantial, however, as it has to reduce its high leverage with an ambitious divestment program in which only the offshore fields are expected to be out of reach. It also has to streamline operations so they become more competitive.

But the signal conveyed by the new management, and by the government at large, is one of commitment to come clean and establish new and more solid foundations. The release of Petrobras' financials should be supportive for other Brazilian corporates, particularly those with direct exposure to the oil company. The move could also help open the door for Brazilian issuers later this year. The benefits most likely extend to the government as well, as reduced risk of debt payment acceleration means the Treasury probably won't need to extend financial assistance to the oil giant.

Still, we have long thought that there were two things needed in order to stabilize market sentiment toward Brazil in the near term. The first—the release of Petrobras' audited results—has been fulfilled. The second is evidence that the fiscal adjustment program is gaining traction despite the weak economic activity. This will only become clear after three or four consecutive months of improvement in the fiscal numbers.

March's fiscal results came up short of expectations, as the public sector generated an overall primary surplus of R$239 million, versus expectations of R$5 billion. The results were the opposite of February, as the central government generated a surplus last month, while the regional governments were in deficit. The nominal deficit (including interest payments) was R$69.2 billion. At the central government level, spending dropped by 2.3% year over year in March and 0.8% year over year during the first quarter on an inflation-adjusted basis, showing that fiscal restraint is gradually being implemented. Revenues, however, fell by 4.5% year over year in March and 4.4% year over year in 1Q on the back of very weak activity.

On a 12-month rolling basis, the overall primary balance remains in deficit to the tune of 0.6% of GDP. This means that much more fiscal adjustment will be necessary to deliver on the administration's promise of a primary surplus this year. While the figures were worse than those of market consensus, we still think the focus should remain on the direction of, and the policy commitment toward, the adjustment, rather than on specific monthly figures. It is likely that Brazil will not be able to generate a primary surplus worth 1.2% of GDP this year, as promised by Finance Minister Joaquim Levy. Brazil needs a primary surplus of at least 2% of GDP to stabilize its debt/GDP ratios, and that won't be possible in 2015 given the ongoing contraction in GDP.

That is not new or surprising. Still, market sentiment toward Brazil is likely to consolidate upon evidence of continued fiscal tightening, even if it's modest. Meanwhile, the authorities lifted the benchmark interest rate by 50 basis points, to 13.25%, as expected. The decision was unanimous and the press release and eventual minutes of the meeting suggest that the hiking cycle may not be over, although we believe that its completion is near.

Chile, Colombia, Mexico: Central banks on hold for now

The central banks of Chile, Colombia and Mexico left their reference rates unchanged in April. In Chile, policymakers delivered a neutral message, suggesting they are in no rush to alter the policy rate, although the decision will eventually be data dependent. Policymakers sounded upbeat about growth prospects in the US and Europe, but concerned about deceleration in China. The headline inflation rate showed a marginal deceleration in April compared to March, although it remains above the ceiling of the official target range. That suggests the central bank has no room to lower rates in an attempt to boost still sluggish domestic demand.

In Colombia, Banco de la República left its reference rate unchanged at 4.5%, in line with market consensus. The vote was unanimous. The central bank said it interprets the drop in terms of trade as a permanent negative shock that will result in a reduction in national income. The ongoing deceleration in consumption and investment is consistent with such dynamics.

Policymakers sounded slightly more upbeat on labor market prospects and on infrastructure and construction in general. Export-oriented industries are also expected to do well. Inflation reached 4.6% year over year in April, above the ceiling of the target range. But the central bank argued that the spike was mainly due to a temporary supply shock (food prices), while medium-term inflation expectations remain well anchored. The message was fairly neutral, but it did not hint at any urgency to modify the current monetary polcy stance.

Banco de México also left its target funding rate unchanged at 3%, in line with the market consensus. The central bank's communique was a shade dovish—likely due to still soft growth associated with a temporary slowdown in the pace of US recovery and the appreciation of the US dollar. As we expected, the central bank appears comfortable with the inflation outlook. Headline inflation is now virtually at the medium-term target level and there is little evidence of pass-through from currency depreciation to domestic prices. Risks, however, will come from abroad. The central bank expects the Fed to begin rising policy rates soon. We continue to believe that Mexico's central bank will wait for the Fed to begin its tightening campaign and then will hike rates in unison with the US central bank.

Venezuela: The policy "shake-up" that wasn't

President Nicolás Maduro promised with great fanfare during his May 1 Labor Day address to launch a "revolcón económico" (economic shake-up) to kickstart the Venezuelan economy. The actual announcement, however, fell well short of expectations. Maduro unveiled a new 30% increase in the minimum wage that will be implemented in two steps—an immediate 20% increase, with the remainder to come at the end of May. This is the second wage adjustment so far this year; a 15% increase was implemented in February. This amounts an implicit acknowledgement that inflation is spiraling out of control. The latest official inflation data release from December showed the annual rate had passed 68%. Actual inflation is probably much higher now—in fact, it's likely approaching the three-digit level. Runaway inflation is making an adjustment of the official exchange rate more and more necessary every day. So far, however, the administration has been hesitant to unify the exchange-rate markets at a more competitive level, and no such move appears to be on the near-term horizon.

Steady growth outlook for 2016; more easing likely in China

Asia ex Japan: We have maintained our GDP growth forecast of 5.9% in 2015, the same level of our initial prediction for 2016 growth. But the mix of growth behind next year's forecast is slightly different. We expect China's growth to ease marginally to 6.5% (from 6.6% in 2015) and expect a mild pickup in growth momentum in the more export-driven economies, such as Singapore, Hong Kong, Korea and Taiwan.

Inflation risk remains distant, and risk of an abrupt reversal of interest-rate cycle, low

In China, we expect continued policy easing to offset the growth headwind created by structural reforms. But the net outcome will be a lower overall growth rate. For most of the other Asian economies, better global demand next year should contribute to a mild recovery. So will the cumulative effect of the policy easing carried out in 2014 and 2015. At this juncture, we expect a slight pickup in inflation, to about 2.4% in 2016 (from 2% in 2015). That will come in tandem with the possible bottoming of the global commodity cycle. However, we do not see the risk of Asian central banks rushing to reintroduce a monetary tightening cycle, even though the US Federal Reserve will likely have resumed its tightening cycle by then.

Chinese law prohibits QE

We do not expect China to embark on QE as a means to reflate growth. In fact, Chinese central bank law actually prohibits the People's Bank of China (PBC) to engage in the sort of QE seen in the US, Japan and the European Union—printing money to buy government assets to monetize the fiscal deficit. Indeed, there are two basic conditions that would justify QE, and neither exists right now.

First, QE is the expansion of the central bank's balance sheet and, thus, a surge in base money growth. In China, base money growth has actually been slowing on the back of increased capital outflows. The PBC's easing measures, including cuts to the reserve requirement ratio (RRR) and bank lending rates, as well as selective liquidity injections, are mainly aimed at filling the hole caused by capital outflows.

China's easing aims to offset capital outflow and prevent credit slowdown

Second, QE can be applied only when the central bank has used all the monetary policy tools in its box, including zero-interest rates. In China, the seven-day repo rate has fallen, but is still at 2.5%, and the three-month interbank bank rate, at 3.8%, is still well above zero. In our view, the PBC still has plenty of room to ease policy via the traditional channels, such as RRR and lending rate cuts, lowering the loan-to-deposit ratio or removing rigid annual loan quotas for banks. Overall, we think China has no need to start down the QE path.

Russia's gloomy outlook brightens…

Emerging Europe, Middle East and Africa: Russia's gloomy economic outlook for this year and next has grown brighter over the past two months. This is due to the bounce-back in oil prices (which almost touched $70 per barrel in early May), a 25% surge in government spending during the first three months of the year relative to the same period last year (mostly due to military spending), and a stabilization of the ruble exchange rate (and hence the banking system). The latter allowed the Central Bank of Russia (CBR) to reverse more than half of the emergency monetary tightening it had delivered in the second half of December.

…with an earlier-than-expected inflation peak…

…and a milder first-quarter GDP contraction

As a result, both growth and inflation turned out to be more favorable than economists had expected at the beginning of the year. The 25% ruble appreciation since late January, combined with the collapse in real wages, ensured a significant slowdown in the sequential pace of inflation from nearly 4% month over month in January to 0.5% in April. This, in turn, has led to the first decline in the year-over-year inflation rate in 10 months, and makes the CBR's projection of a single-digit inflation rate by the first quarter of 2016 more realistic. Meanwhile, the Russian Ministry of Economy estimated that real GDP may have contracted by only about 2.2% year over year during the first three months of 2015—significantly less than we and many others had penciled in for the first quarter.

We now expect a shallower recession,…

…faster disinflation and more aggressive rate cuts

Based on the assumption that the price of oil (Brent) remains in the $60–$70 range for the rest of the year, we have revised our projection of Russia's 2015 real GDP growth to (2.5)% and we expect next year's growth to be close to flat. We have also shaved off about 200 basis points from our year-end inflation forecast, which in turn has led us to forecast a more aggressive path of monetary policy easing during the rest of 2015. We now think the CBR may cut the policy rate by another 300 basis points, to 9.50%, by the end of December. The key risk to the inflation path is, of course, the ruble and whether it weakens substantially again later this year. Another risk is stronger (or rather less weak) growth itself. That said, Russia's output gap will continue to widen this year, keeping demand-side inflationary pressures at bay.

Turkey's election outcome could affect prospects for the economy and democratic institutions…

In Turkey, parliamentary elections scheduled for June 7 will be the dominant theme for the next couple of months. Politics has never been dull in Turkey, but this year's elections will be more closely watched than usual because much of Turkey's economic and political future potentially depends on the outcome. Not so surprisingly, all will depend on what share of the parliament the ruling Development and Justice Party (AKP) secures. This, in turn, will depend both on its own performance and the performance of the pro-Kurdish People's Democratic Party (HDP). If the latter crosses the 10% electoral threshold and makes it into parliament, the AKP will have a hard time securing enough votes to push through the new constitution (or even a referendum on one) on its own, and may even struggle to keep a simple majority in the next National Assembly.

However, if the HDP fails to pass the threshold, the AKP might be able to implement constitutional changes without the opposition's approval. The fear is that such changes, including the switch over to a presidential system, would be highly controversial and socially divisive and would lead to an unhealthy concentration of political power in the hands of not only one party but also one individual—President Recep Tayyip Erdoğan. Many of Erdoğan's opponents and critics have long argued that another strong victory for the AKP would lead to a further erosion of the government's remaining checks and balances—all to the detriment of Turkey's already somewhat weakened political and economic institutions.

…yet the outcome remains uncertain

But which of these two scenarios will unfold is highly uncertain. The HDP is currently polling within two to three percentage points of the 10% electoral threshold and could as easily end up outside parliament as inside it. Meanwhile, the AKP's own popularity is also a bit of a mystery. The latest surveys give the AKP anywhere between 38% and 48% of the vote, with the pro-AKP pollsters tending towards the higher end of the spectrum, i.e., not too far from the 49.8% the party received in the 2011 elections. In the past several elections, including the municipal and the presidential elections in 2014, the AKP tended to surprise with a stronger-than-expected result. However, what makes this year's outcome more uncertain is the state of the Turkish economy. With lackluster growth for the second year in a row, rising unemployment and the lira at its all-time low, the AKP may struggle to convince the swing voters who in the past have voted for the party with their wallets instead of their hearts.

We believe that the Goldilocks scenario for the economy, for the markets and, ultimately, for Turkey would be the one in which the AKP receives just enough seats to form a majority government, yet remain checked by a strong parliamentary opposition, including the HDP. As an additional silver lining, such a scenario would make it more likely that the next government would successfully complete a Kurdish peace process, allowing the economy to eventually reap the benefits of the much-talked-about "peace dividend."

Recovering commodity prices offer respite from fiscal concerns, but medium-term growth remains a question

Frontier Markets: In response to lower oil prices, many African economies revised their budgetary assumptions downward, slashing spending and preparing to issue more debt. Countries such as Angola, Nigeria and Gabon all lowered their 2015 oil price target significantly, to $40, $53 and $40, respectively. With a recovery in oil prices to above these levels, African oil producers seem poised to outperform their revenue targets.

However, it's important to note that while oil prices have recovered from their lows, they remain significantly depressed. What's more, the spending cuts that were made, specifically targeting much-needed capital projects, cannot be easily reversed. For this reason, we remain concerned about the overall growth prospects as these governments deviate from large-scale public-led construction of power plants, bridges and roads. Nigeria, now in the midst of its first transfer of power to another party, remains our top concern. Headlines about corruption, misspent funds and cash crunches are becoming a more frequent occurrence in a run-up to the swearing-in ceremony at the end of the month. Even if oil prices stay at this level, these countries should not deviate from their plans to diversify or their efforts to grow a nonoil economy.

AllianceBernstein Global Economic Forecast

May-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	3.2	2.8	3.2	2.1	2.2	2.3	2.6	2.12	1.87	3.17	2.85
(PPP Weighted)	(3.4)	(3.5)	(3.0)	(4.3)	(2.7)	(2.3)	(3.0)	(3.2)				
Industrial Countries	2.6	2.3	2.2	2.6	1.0	1.8	0.4	1.9	0.58	1.04	1.65	2.07
Emerging Countries	3.7	5.0	3.8	4.3	4.1	3.0	5.5	4.6	4.89	4.06	5.93	5.16
United States	3.2	3.0	3.0	3.6	1.3	2.7	0.4	2.7	1.00	2.00	2.75	3.15
Canada	1.1	2.6	1.7	1.9	0.3	0.8	0.4	0.7	0.75	0.75	1.65	1.90
Europe	2.2	1.9	1.8	2.0	0.9	1.2	0.3	1.3	0.14	0.29	0.77	1.29
Euro Area	2.0	1.8	1.6	1.9	0.9	1.1	0.3	1.2	0.05	0.05	0.50	1.00
United Kingdom	3.1	2.1	2.8	2.6	0.6	1.4	0.3	1.5	0.50	1.25	2.00	2.50
Sweden	2.5	2.1	2.7	2.4	0.4	2.0	0.2	1.4	-0.25	0.25	0.65	1.35
Norway	1.3	2.4	1.3	2.2	1.9	2.0	1.9	2.1	1.00	1.50	1.50	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	2.75	3.25
New Zealand	1.8	1.3	2.5	1.5	0.7	1.7	0.2	1.6	3.25	2.50	3.15	3.25
Asia ex Japan	5.9	5.9	5.9	5.9	2.0	2.6	2.0	2.4	2.85	2.86	3.68	3.94
China[2]	6.6	6.5	6.6	6.5	1.5	1.9	1.6	1.8	2.00	2.00	3.20	3.50
Hong Kong[3]	3.2	2.8	2.2	3.3	2.4	3.1	3.0	2.9	0.75	1.25	1.69	1.41
India[4]	6.1	6.9	6.4	6.8	5.5	5.8	5.0	5.9	7.25	7.25	7.40	7.80
Indonesia[5]	5.8	5.4	5.4	5.5	4.2	4.7	5.2	4.3	7.00	6.50	6.00	6.30
Korea[6]	3.5	2.8	2.8	3.4	0.9	1.6	0.7	1.4	1.25	1.25	2.00	1.90
Thailand[7]	2.8	4.1	3.9	3.6	0.5	2.4	0.0	2.0	1.25	1.25	2.40	2.80
Latin America[8]	1.1	2.3	0.5	1.8	5.8	4.3	5.9	4.5	8.51	8.20	9.65	9.36
Argentina	0.0	1.3	-0.4	0.7	20.0	25.0	23.0	29.0				
Brazil	-0.2	1.5	-1.1	1.0	8.0	5.4	8.3	5.7	13.00	11.75	12.85	12.00
Chile	3.5	4.0	3.1	3.6	3.0	3.0	3.0	3.0	3.00	3.75	4.50	5.00
Colombia	3.0	3.0	2.9	3.1	3.5	3.3	3.8	3.5	4.50	5.25	7.15	7.50
Mexico	3.3	3.8	3.0	3.3	3.3	3.2	3.2	3.1	3.25	4.00	6.10	6.40
EEMEA	-1.3	...	0.0	1.2	10.4	...	10.8	...	8.84	...	10.60	...
Hungary	2.9	...	3.0	2.5	1.9	...	-0.1	...	1.65	...	3.50	...
Poland	3.7	...	3.4	3.5	0.3	...	-0.8	...	1.50	...	2.50	...
Russia	-5.3	...	-2.5	-0.5	15.5	...	17.1	...	12.00	...	14.00	...
South Africa	2.4	...	2.4	2.2	5.8	...	4.6	...	6.00	...	8.50	...
Turkey	3.3	...	2.6	3.5	7.5	...	6.8	...	8.00	...	9.25	...

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.