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Economics Research
http://www.credit-suisse.com/researchandanalytics

Global Economy: Monthly Review

Economics

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MONTHLY REVIEW:

A narrow path, but we're on it

Our latest forecast review sees another small upward revision to our global growth and inflation numbers. Next year's growth forecast is now back in line with its very long run multi-decade trend, although it is still hard to foresee how that will make up for the lost potential output – the GDP that the world "left on the table" – in the "Great Recession" of recent quarters. In light of where sentiment – and possibly reality – was six months or so ago, the idea that the outturn might be so unremarkable is itself remarkable. We had been expecting an outcome in this spirit, based largely on the intensity of the policy response, but financial market participants have been entitled to perceive signs of the possible exit from perpetual recession as new and gratifying news.

As the recession comes to an end – some time around the middle of the year for the global economy – we should expect the policy response to stop increasing. As that happens, markets will at some point start to concern themselves with its possible reversal, even if such an event – or series of events – is still, as we believe, some way off. For example, we don't expect the major central banks to raise interest rates until next year.

In the meantime, of course, their actions and comments are likely to be watched closely for signs that the mood – which, for the most part, remains one of caution – is changing. There may already be the first signs of that in the Fed's tone in recent days, and there may be clearer signs there and elsewhere towards the end of the year.

We expect the US and UK economies to make a relatively early return to growth. The same is true for Japan, but we have more concerns about sustainability there. The euro area and Switzerland may make a slightly later return to growth, but, in the case of Germany, a relatively strong one. China has been less affected by the recession and the rest of non-Japan Asia should benefit from a recovery in global trade.

On that basis, a possible risk to the forecast is that the recovery may be almost as synchronised as the recession. The recession was more severe because it was so synchronised and the recovery could be stronger if the same processes – the trade multipliers – work in the opposite direction. That remains to be seen – it would presumably show up in a continued improvement in the cyclical indicators, particularly in the more export-oriented economies. Japan, Germany, and some of the emerging market countries have a high beta to global GDP, reflecting the high beta of international trade to economic activity.

Improvements in the cyclical business indicators have led a growing number of investors to accept that we are closing in on a business cycle trough. However, the new concern we hear often is that this is no more than the initial V within a W shaped path. This expresses the fear that after an initial inventory-led phase of recovery, business activity will falter again because final demand fails to follow through. A key concern in this regard is the assertion that the private sector still needs to reliquefy or strengthen its balance sheet while, in many jurisdictions, public sector balance sheets are overstretched by the prospect of unsustainably high fiscal deficits.

In statistical terms this might mean a further rise in the saving rate or, more generally, a move toward financial surplus. Financial deficits arise from the accumulation of liabilities while surpluses arise from the acquisition of assets. Having spent a long time doing the former, the story goes, US and UK consumers and some other participants in the world economy now need to spend a long time doing the latter. While there is likely to be considerable truth to this assertion – how else to close the global trade imbalances – we note that a considerable down-payment in this direction has already been made. Moreover, the tenor of quantitative- and credit-easing central bank policies is to slow and smooth that deleveraging process after the tumultuous first round last autumn and winter.

The “Great Moderation” in economic performance over the last few decades gave the economy and economic policy extra degrees of freedom. The paths available were relatively wide, and the system was correspondingly resistant to shocks. Think, for example, of how readily the global economy absorbed the regionally devastating Asian debt crisis of the late 1990s or the intensely painful industry-specific dot-com collapse of the early 2000s. In turn, the “Great Moderation” allowed for relatively rich valuations in securities markets.

By contrast, the sustainable paths for both the economic recovery and macroeconomic policy now seem relatively narrow. Too much continued “improvement” in saving rates and there will be no lasting recovery; instead, we would soon find ourselves in the second downswing leg of the W for lack of final demand. Too much recovery and/or premature withdrawal of monetary and fiscal support could lead financial markets to impose that same dreaded renewed downturn. This suggests that equilibrium securities valuations (P/E ratios, credit spreads, and the like) should be cheaper now than was the case on average in the last ten or twenty years.

Exhibit 1: Global GDP Growth

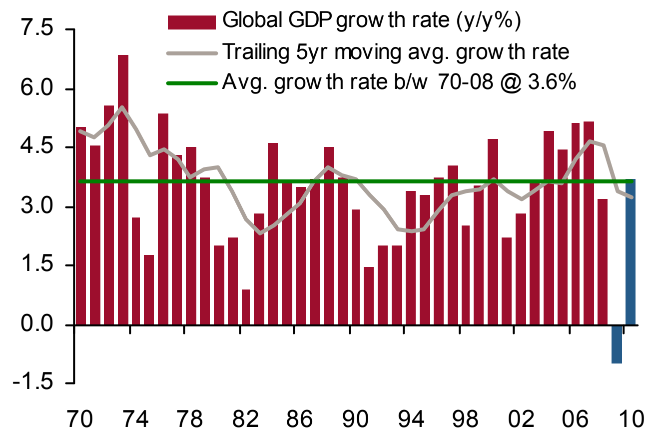

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Exhibit 2: Manufacturing PMI New Orders Index

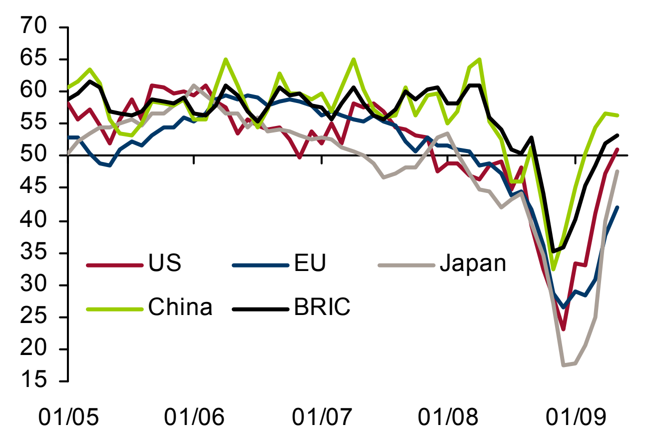

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Exhibit 3: Asia Industrial Production

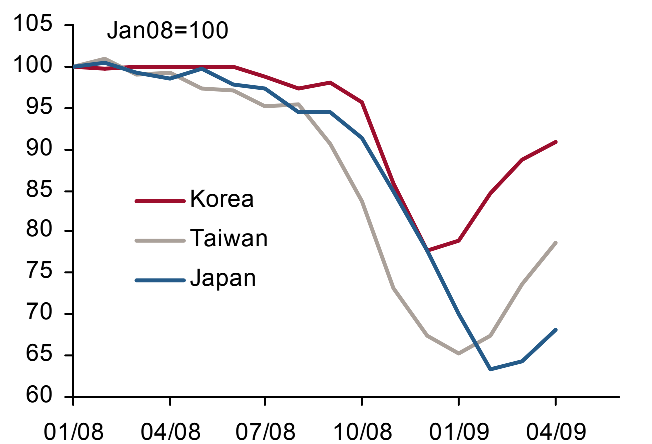

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Exhibit 4: G3 Core Inflation Rate

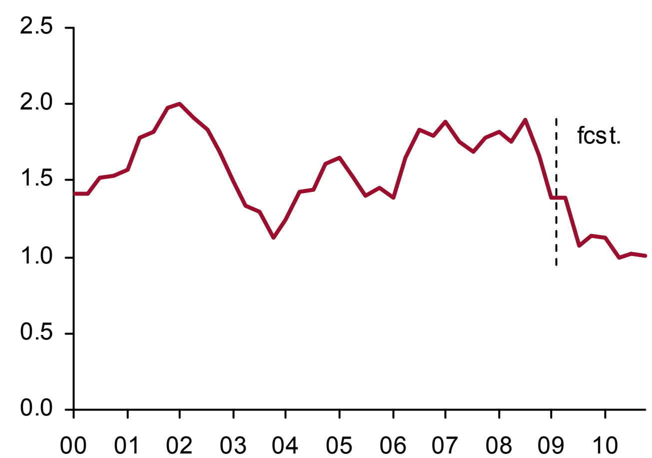

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Exhibit 5: G3 Unemployment Rate

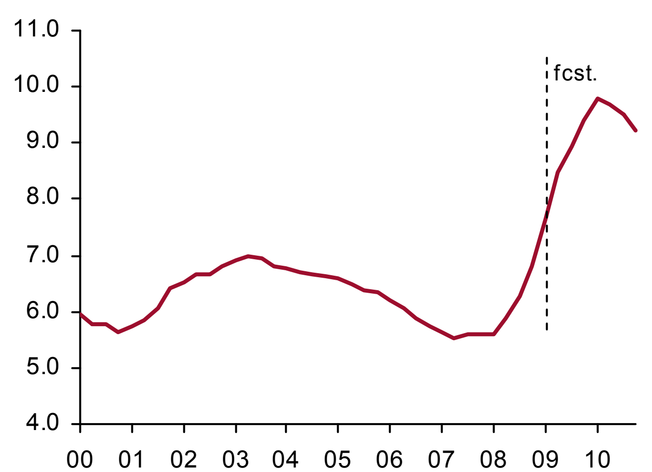

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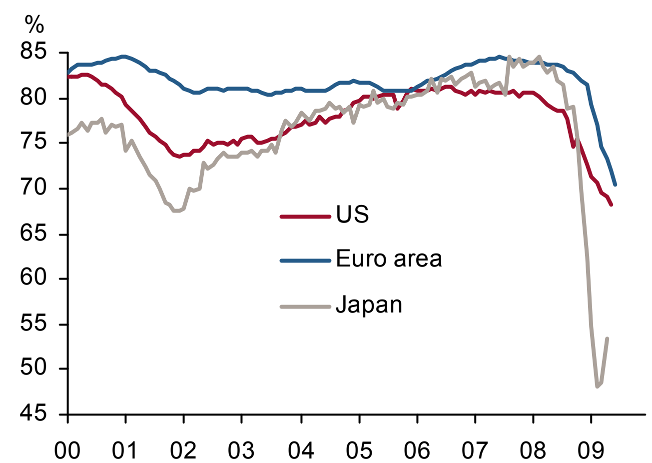
Exhibit 6: G3 Capacity Utilisation Rate



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US: Right on schedule

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We have made no substantial changes to our forecasts for several months. Mounting evidence reinforces our belief that the recession is troughing and modest real GDP growth will resume in the second half of the year.

Our latest quarterly GDP profile expects a 0.5% decline in Q2 real GDP, followed by 0.3% growth in Q3, and 2.0% growth in Q4. Our 2010 forecast remains +3.5% on a Q4/Q4 basis (+2.5% annual average).

In a troughing process, gains in economic activity precede gains in the labor market. Declines in payroll employment are moderating, although substantial declines may persist for a period of time. The unemployment rate is likely to keep rising into 2010, peaking at over 10% early next year. Even after a year of growth, the unemployment rate would fall to a still elevated 9% in our forecast by the end of 2010. Industrial Capacity Utilization would rise to just 72 (from the all-time low of 68.3 reported in May; the long-run average is 81).

The recovery we envision is mediocre relative to previous cyclical experience following a severe recession. The pathology of the current episode could produce a mediocre or muted recovery because banks may not be in a strong position to lend and/or the customers are not eager to re-leverage.

Regarding inflation, base effects should cause year-on-year headline inflation readings to fall sharply over the next few months. We expect headline inflation to rebound later this year and in 2010 with economic recovery. We expect core inflation to remain subdued because the recovery will likely be mediocre, which could leave significant spare labor and capital resources underutilized.

The FOMC's public posture has shifted in recent weeks. The thrust of the April FOMC Minutes was in the direction of potentially increasing the quantitative easing (QE) commitment. Recent public comments and news reports suggest the FOMC has backed off from that posture. Either the Fed has been impressed by the improvement in the data and financial conditions, or it is mindful that the market seems to have rejected its approach. In our view, the Fed is very far away from actually withdrawing monetary stimulus. At the end of the day, we think the Fed will begin raising the funds only after the unemployment rate has visibly peaked. The peak in our forecast (almost 10 1/2%) comes in early spring 2010. If that forecast turns out to be accurate, actual Fed rate hikes could be next summer's story.

The Fed and most professional economists would view a policy stance symbolized by a 1% or 1.5% fed funds rate as still quite accommodative – and properly so if unemployment is still high and falling only slowly. Communicating to financial markets the subtle distinction between a "rising" funds rate and a "low" fed funds rate may prove a delicate task.

US Economic Forecast

Quarter-to-Quarter %	2009				2010E				Q4/Q4				Annual Average			
Changes at annual rates	Q1	Q2E	Q3E	Q4E	Q1	Q2	Q3	Q4	07	08	09E	10E	07	08	09E	10E
Real GDP	**-5.7**	**-0.5**	**0.3**	**2.0**	**3.5**	**3.5**	**3.5**	**3.5**	**2.3**	**-0.8**	**-1.0**	**3.5**	**2.0**	**1.1**	**-2.5**	**2.5**
Consumer Spending	1.6	0.0	0.6	1.5	1.8	1.8	1.8	1.8	2.2	-1.5	0.9	1.8	2.8	0.2	-0.7	1.5
Residential Investment	-38.7	-15.4	-7.8	-2.9	0.8	0.8	0.8	0.8	-19.0	-19.4	-17.5	0.8	-17.9	-20.8	-21.8	-2.1
Business Investment	-36.9	-16.3	-7.6	-2.1	7.6	7.7	7.6	7.7	6.4	-5.2	-16.9	7.7	4.9	1.6	-18.6	2.1
Equipment & Software	-33.5	-19.8	-9.5	-6.7	3.4	3.4	3.4	3.4	2.8	-11.0	-18.1	3.4	1.7	-3.0	-21.0	-1.9
Non-Res Structures	-42.3	-1.3	-3.9	2.8	15.8	15.8	15.7	15.7	14.5	6.3	-13.4	15.7	12.7	11.2	-13.1	9.6
Total Government	-3.5	3.5	3.1	5.0	6.5	6.5	6.5	6.5	2.4	3.2	2.0	6.5	2.1	2.9	1.6	5.6
Federal Government	-4.3	6.0	3.4	3.9	5.7	5.7	5.7	5.7	2.3	8.2	2.2	5.7	1.6	6.0	4.0	5.1
State & Local	-3.0	1.3	2.9	5.8	7.0	7.0	7.0	7.0	2.4	0.4	1.7	7.0	2.3	1.1	0.1	5.9
Real Gross Domestic Purchases	-7.5	-1.1	1.1	3.0	3.5	3.5	3.5	3.6	1.4	-1.9	-1.2	3.5	1.4	-0.3	-3.1	2.8
Net Exports (contr. to GDP, %)	2.2	0.9	-0.8	-1.1	-0.1	-0.1	-0.1	-0.1	0.9	1.2	0.3	-0.1	0.6	1.4	0.8	-0.3
Real Exports	-28.7	-9.2	-7.4	-7.0	4.2	4.2	4.2	4.2	8.9	-1.8	-13.6	4.2	8.4	6.2	-14.5	-0.4
Real Imports	-34.1	-13.3	-0.6	2.0	4.3	4.3	4.3	4.3	1.1	-7.5	-12.7	4.3	2.2	-3.5	-16.1	2.0
Inventories (contr. to GDP, %)	-2.3	0.2	1.0	1.0	0.4	0.3	0.3	0.3	-0.2	-0.2	0.0	0.3	-0.4	-0.2	-0.3	0.5
Nominal GDP	-3.1	-0.1	2.7	3.3	5.2	4.1	5.3	5.7	4.9	1.2	0.7	5.1	4.8	3.3	-0.7	4.0
CPI (y/y%)	**-0.2**	**-1.0**	**-1.8**	**0.7**	**1.7**	**1.6**	**1.3**	**1.6**	**4.0**	**1.5**	**0.7**	**1.6**	**2.9**	**3.8**	**-0.6**	**1.6**
Core CPI (y/y%)	**1.7**	**1.8**	**1.4**	**1.6**	**1.5**	**1.3**	**1.4**	**1.4**	**2.3**	**2.0**	**1.6**	**1.4**	**2.3**	**2.3**	**1.6**	**1.4**
Core PCE (y/y%)	1.8	1.8	1.5	1.5	1.4	1.2	1.2	1.3	2.2	1.9	1.5	1.3	2.2	2.2	1.6	1.3
Corp. Profits w/CCadj and IVA (y/y%)	-18.0	-14.8	-8.5	10.5	8.8	10.5	6.1	7.2	-2.0	-21.5	10.5	8.8	-1.6	-10.1	-8.6	8.1
Industrial Production (y/y%)	-11.5	-13.1	-9.2	-5.6	0.1	4.2	3.1	3.5	2.2	-6.7	-5.6	3.5	1.7	-2.2	-9.9	2.7
Unemployment Rate (qtr. avg., %)	**8.1**	**9.3**	**9.7**	**10.0**	**10.4**	**10.0**	**9.5**	**9.1**	**4.8**	**10.0**	**9.1**	**9.1**	**4.6**	**5.8**	**9.3**	**9.8**
Fed Funds Rate (end of pd., in %)	**0-.25**	**0-.25**	**0-.25**	**0-.25**	**0-.25**	**0-.25**	**1.00**	**1.50**	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**

Source: Credit Suisse

Japan: A rebound followed by a slowdown

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We made minor revisions to our near-term growth forecasts this month. We now look for -5.4% and 1.9% for annual average growth for CY2009 and CY2010, respectively (-5.6% and 2.0% before the revision). The trajectory of our qoq growth forecast into next year has been little changed, namely a near-term rebound followed by a slowdown.

The main drivers for the near-term growth rebound include a strong recovery of industrial production amid increasing external demand for capital goods, a temporary pick-up in consumer spending with the government stimulus measures, such as the fixed amount tax rebate, and the newly introduced grant for purchasers of passenger cars and electric appliances kicking in, and expansion of public investment.

As we pointed out last month, existence of a large negative output gap (estimated to be around 7% at the end of this year) would weigh on growth over the medium run. In other words, once the stimulus from inventory adjustment and public demand fades out, the overall economic activity is likely to soften. In such a scenario, capex should recover only moderately in CY2010 (by less than 2% after a 16% contraction in 2009) with over-capacity remaining substantial. As firms are likely to continue to reduce the number of employees, the unemployment rate (5.0% as of April) would rise to 6% by the end of CY2010, limiting consumption recovery.

Job markets are likely to signal the risk of wage deflation returning. Low capacity utilization and the consequent weakening of pricing power will imply deterioration in terms of trade if commodity inflation gathers momentum. To the BOJ, the threat of inflation should remain much more limited than that of deflation, and we don't expect the central bank to make noise anytime soon.

Japan Economic Forecast

Quarter-to-Quarter %	2009				2010E				Financial Year				Calendar Year			
Changes at annual rates	Q1	Q2E	Q3E	Q4E	Q1	Q2	Q3	Q4	07	08	09E	10E	07	08	09E	10E
Real GDP	-14.2	3.1	7.1	2.0	1.0	1.0	0.4	-0.8	1.9	-3.1	-2.5	1.1	2.4	-0.7	-5.4	1.9
Domestic Demand Growth	-8.8	0.3	2.5	1.7	1.2	0.9	0.8	-0.3	0.7	-2.0	-1.2	1.0	1.3	-1.0	-2.7	1.1
Consumer Spending	-4.2	2.8	0.8	-0.4	1.2	0.8	0.8	-0.8	1.0	-0.5	-0.3	0.5	0.9	0.6	-1.2	0.7
Private Residential Investment	-20.3	-5.9	4.1	8.2	4.1	2.0	1.2	1.2	-12.9	-3.2	-0.5	3.0	-9.1	-8.0	-0.9	3.2
Capital Expenditures	-31.0	-7.8	7.0	5.3	-1.2	1.2	2.0	2.0	2.2	-9.2	-11.2	1.8	5.8	-4.2	-16.2	1.6
Inventories (contr. To GDP)	-0.6	-0.3	-0.6	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.3	-0.2	0.2	-0.1
Government Expenditure	0.1	6.1	2.0	2.0	0.8	0.8	0.8	0.0	2.2	0.3	3.0	0.9	2.0	0.8	2.4	1.5
Public Investment	0.3	17.0	34.5	14.8	9.1	2.0	-3.9	-7.8	-5.6	-4.8	12.9	3.9	-7.1	-6.9	8.3	9.3
Net Exports (contr. to GDP)	-8.0	3.7	4.6	0.4	-0.2	0.0	-0.3	-0.5	1.2	-1.2	-1.3	0.1	1.1	0.2	-2.8	0.7
Real Exports Growth	-70.0	45.3	60.2	6.1	2.0	4.1	0.0	-2.0	9.3	-10.1	-12.0	4.6	8.4	1.8	-24.6	10.6
Real Imports Growth	-47.8	8.2	17.0	4.1	4.1	4.9	3.2	2.0	1.8	-3.6	-4.6	4.5	1.5	0.9	-10.0	5.7
Nominal GDP Growth(YoY%)	-8.0	-6.4	-3.9	-0.8	2.3	2.0	0.7	0.3	1.0	-3.7	-2.2	0.7	1.7	-1.6	-4.8	1.3
Industrial Production (y/y%)	-33.8	-21.0	-12.0	-5.0	24.0	6.0	-3.0	-2.0	2.6	-12.6	-3.5	-0.3	2.8	-3.4	-18.0	6.3
CPI (y/y%)	0.0	-0.8	-1.6	-1.0	-0.6	-0.4	-0.3	-0.1	0.3	1.1	-1.4	-0.5	0.0	1.4	-0.9	-0.4
Core CPI (y/y%)	0.0	-0.8	-1.6	-1.0	-0.6	-0.4	-0.3	-0.1	0.3	1.2	-1.4	-0.5	0.0	1.5	-0.9	-0.4
Unemployment rate %	4.4	5.2	5.4	5.5	5.6	5.8	5.8	5.9	3.8	4.1	5.4	5.9	3.9	4.0	5.1	5.8
Current account bal. To GDP%	1.4	1.5	2.0	2.0	...	...	...	...	4.1	2.6	...	...	3.9	3.2	1.7	...
Call Rate (at end of QTR)	0.10	0.10	0.10	0.10	0.00	0.10	0.10	0.10	...	...	...	...	...	...	...	...

Source: Credit Suisse

Euro Area and UK: Out of recession

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We continue to expect growth to turn positive in the euro area and UK in the second half of the year. PMI surveys suggest that the pace of deterioration has continued to ease and, in the case of the UK, the rise in the composite PMI above 50 suggests the economy may now be growing. That's corroborated by industrial production numbers for April, which raise the possibility that UK GDP could increase as soon as Q2. Our GDP forecasts for 2010 remain at 1.5% for the euro area and 1.8% for the UK.

The deterioration in the labor market in Europe is much less advanced than it is in the US. In both the euro area and UK the declines in GDP have far outstripped falls in employment. For example, German GDP fell by 7% in the year to Q1 2009 but employment actually rose. That equates to a massive collapse in productivity, rise in unit labour costs and squeeze on profits. But it also means that the most intense phase of employment decline may occur when output has started to recover. As such, consumer spending could be constrained by poor income growth in the second half of 2009.

The sharp fall in GDP has been accompanied by a collapse in capacity utilization. That, and higher unemployment, should mean lower core inflation in the coming year or two. In the UK there's evidence that that downwards pressure is being offset by the sharp devaluation in sterling. In the very near term base effects should push euro area headline inflation into negative territory in June, where it will likely remain for a few months. However, the recent rise in oil prices means headline inflation for 2010 has been revised up slightly.

Policy rates are likely to remain at their current low levels for the remainder of the year. However, if our forecasts are correct growth will be at levels consistent with rising policy rates in early 2010. We look for UK rates to start rising in Q1 next year and euro area rates to rise in Q2. We think both central banks will have taken rates to at least 2% by the end of 2010.

Recent comments from the MPC of the Bank of England suggest that it is disproportionately concerned about the downside risks and so it may have consequently biased its policy in response. We think the MPC will announce an extension of its quantitative easing program by a further £25bn – to the full £150bn it has permission for – at its July meeting. At present it's not clear whether the MPC will ask for permission to extend the program beyond that. Alongside the improvement in real economy indicators there is also tentative evidence that quantitative easing is having its desired impact on the money supply.

The ECB has maintained its stance of credit, rather than money, easing with the announcement of a €60bn covered bond purchase program and the extension of term repos to a year. There are clearly some on the Governing Council eager to announce – and possibly execute – the form of an exit strategy. But given the ECB's extremely gloomy forecast for growth in 2010 (-0.2%) any move in policy rates from 1% is unlikely before the end of the year.

Euro-16 Economic Forecast

Quarter-to-Quarter %	2009				2010E				Q4/Q4				Ann. Avg.			
Changes at annual rates	Q1	Q2E	Q3E	Q4E	Q1	Q2	Q3	Q4	07	08	09E	10E	07	08	09E	10E
Real GDP Growth																
Germany	-14.4	0.1	0.6	1.7	2.4	2.2	2.6	3.1	1.7	-1.8	-3.2	2.6	2.6	1.0	-5.6	1.9
France	-4.7	-1.9	0.9	2.4	1.8	1.8	1.8	1.9	2.2	-1.7	-0.9	1.8	2.3	0.3	-2.6	1.5
Italy	-9.3	-2.6	-0.1	1.5	1.4	1.3	1.4	2.0	0.2	-3.1	-2.7	1.5	1.5	-1.0	-5.0	1.0
Spain	-6.5	-4.0	-0.9	1.0	1.2	1.4	1.7	1.9	3.3	-0.7	-2.7	1.6	3.7	1.2	-3.3	0.7
Netherlands	-10.7	-1.7	0.3	1.2	2.5	2.5	3.9	3.9	4.1	-0.8	-2.8	3.2	3.5	2.1	-4.1	2.0
Euro-16 GDP q/q ann	**-10.1**	**-2.0**	**0.0**	**1.7**	**2.2**	**1.9**	**2.2**	**2.5**	**2.1**	**-1.5**	**-2.7**	**2.2**	**2.6**	**0.6**	**-4.3**	**1.5**
Consumer spending	-0.9	0.6	1.0	1.0	1.2	0.8	0.8	1.2	1.2	-0.5	0.4	1.0	1.6	0.3	-0.2	1.0
Government spending	2.7	3.7	3.5	2.6	2.2	2.2	2.0	1.7	2.0	2.2	3.1	2.0	2.2	2.0	2.7	2.5
Investment	-14.0	-5.7	-3.2	0.9	1.4	3.1	4.4	4.7	3.0	-5.1	-5.7	3.4	4.3	-0.2	-8.6	1.2
Final domestic demand	-3.1	-0.1	0.7	1.3	1.5	1.5	1.8	2.0	1.8	-1.0	-0.3	1.7	2.3	0.5	-1.5	0.0
Net exports (con. To GDP)	-3.6	-0.7	-0.4	-0.1	0.0	-0.2	0.3	0.3	0.2	-1.3	-1.2	0.1	0.3	0.2	-2.3	-0.1
Exports	-22.3	-5.2	-2.4	0.2	2.6	3.5	4.0	4.7	3.9	-5.7	-7.9	3.7	5.8	1.1	-12.2	1.5
Imports	-15.3	-3.5	-1.4	0.5	2.6	3.8	3.3	3.9	3.5	-2.9	-5.1	3.4	5.2	1.2	-7.7	1.7
Inventories (con. To GDP)	-3.7	-1.2	-0.3	0.5	0.7	0.5	0.1	0.2	0.2	0.8	-1.2	0.4	0.0	0.1	-0.7	0.3
Industrial production (y/y%)	-17.7	-19.5	-17.5	-11.8	-4.0	0.5	1.8	2.6	3.3	-9.4	-11.8	2.6	3.7	-1.8	-16.6	0.2
Nominal GDP (% y/y)	-2.5	-3.1	-2.9	-1.1	2.0	2.9	3.4	3.6	4.5	0.8	-1.1	3.6	5.0	2.9	-2.4	3.0
CPI (y/y%)	1.0	0.2	-0.2	0.9	1.6	1.6	1.4	1.3	2.9	2.3	0.9	1.3	2.1	3.3	0.5	1.5
Core CPI (y/y%)	1.6	1.6	1.2	1.1	1.1	1.0	1.1	1.0	1.9	1.9	1.1	1.0	1.9	1.8	1.4	1.1
Current account (% of GDP)	-1.9	-2.1	-2.1	-2.2	-1.4	-1.4	-1.4	-1.4	...	...	...	...	0.1	0.1	-2.1	-1.4
Government balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-0.6	-1.8	-5.0	-5.7
ECB repo rate (end period)	1.50	1.00	1.00	1.00	1.00	1.25	1.75	2.00	...	...	...	...	...	...	...	...

Source: Credit Suisse

UK Economic Forecast

Quarter-to-Quarter %	2009				2010E				Q4 to Q4				Annual Average			
Changes at annual rates	Q1	Q2E	Q3E	Q4E	Q1	Q2	Q3	Q4	07	08	09E	10E	07	08	09E	10E
Real GDP	-7.3	-1.8	0.1	1.2	2.1	3.1	3.2	3.2	3.2	-2.0	-2.0	2.9	3.0	0.7	-3.6	1.8
Consumer spending	-4.7	-2.0	1.2	1.2	1.2	1.6	2.0	2.4	3.7	-0.8	-1.1	1.8	3.0	1.4	-2.3	1.3
Government	1.2	2.4	2.4	2.4	2.4	2.4	2.0	2.0	1.5	4.4	2.1	2.2	1.5	3.4	2.8	2.3
Investment	-14.2	-7.8	-7.8	-3.9	-2.0	-2.0	0.8	0.8	4.4	-8.0	-8.5	-0.6	6.8	-3.1	-8.8	-3.0
Domestic demand	-7.6	-0.2	1.6	1.6	2.4	2.2	1.5	1.8	3.7	-2.9	-1.2	2.0	3.5	0.6	-3.7	1.8
Inventories (contr to GDP)	-2.4	1.9	1.6	1.0	1.4	1.0	-0.3	-0.3	0.3	-2.0	0.5	0.5	0.2	-0.4	-1.4	1.0
Net exports (contr to GDP)	0.4	-1.6	-1.5	-0.5	-0.3	0.8	1.6	1.3	-0.7	1.1	-0.8	0.9	-0.7	0.2	0.2	0.0
Export growth	-22.1	-6.2	-2.4	4.1	3.2	6.6	9.5	8.2	3.5	-4.4	-7.2	6.9	-4.1	0.1	-10.3	3.8
Import growth	-21.5	0.0	3.2	5.3	4.1	2.8	2.8	2.8	5.6	-7.6	-3.9	3.1	-1.5	-0.6	-9.8	3.5
Industrial production (y/y%)	-12.1	-12.6	-12.0	-7.9	-1.7	2.3	5.8	7.0	0.7	-7.6	-7.9	7.0	0.1	-2.8	-11.2	3.3
Nominal GDP growth	...	...	...	...	...	...	...	...	5.9	0.0	...	...	6.0	3.0	-0.3	...
CPI (y/y%)	3.0	2.1	1.0	1.6	2.7	2.7	2.8	2.9	2.1	3.9	1.6	2.9	2.3	3.6	1.8	2.8
Current account (% GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-2.8	-2.0	-3.5	...
Govt balance (% GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-2.6	-5.5	-8.0	...
BOE repo rate	0.50	0.50	0.50	0.50	0.75	1.25	1.75	2.00	...	...	...	...	...	...	...	...

Source: Credit Suisse

Scandinavia: Much of the same

Sweden

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Signs from the Swedish economy are mixed. Surveys are improving, particularly the PMI. This – the most reliable indicator for growth, in our view – rose to around 44, 12 points higher than the record low posted in December last year. However, news from hard data is not as encouraging. Production is still falling on a monthly basis, although the pace of deterioration has eased. The labor market continues to deteriorate. On the other hand, sales have shown some tentative signs of stabilization.

The Swedish economy came to a halt in Q4 last year, when GDP fell 5% on the quarter. Such a grim print implies a significant negative carryover on this year's growth average. We now look for Swedish GDP to contract more than 5% in 2009. However, we still believe that growth should improve from Q2 onwards and a positive GDP print is likely by Q4. Looking forward, the recovery may be stronger than previously thought. We expect growth to average 1.8% next year. Expansive monetary and fiscal policies and a recovery of global demand should underpin growth.

In our view, monetary policy will respond to the rosier picture. Rates should be higher than 0.5% at the end of next year and, in line with the withdrawal of monetary policy easing elsewhere, we expect the Riksbank to start tightening in H2 next year.

Sweden Economic Forecast

y/y%	2007	2008	2009E	2010E
Real GDP	2.7	-0.4	-5.3	1.8
CPI	2.2	3.5	-0.4	1.4
Policy Rate (end-year)	4.00	2.00	0.50	2.00

Source: Credit Suisse

Norway

The Norwegian economy seems to be weathering the storm fairly well. Growth should stop falling from Q3 onwards. Moreover, the contraction experienced by the Norwegian economy looks fairly muted if compared to the figures of other developed economies. We revise this year's forecasts on the back of the latest data available, up to -1.7% from -2.3%. Moreover, this and better global prospects for next year led to an upward revision of next year's growth too. Our latest view is fairly in line with the Norges Bank's June projections. These showed the mainland economy contracting by 1.5% this year and growing 2.5% next year.

The Norges Bank cut the key rate by 25bps in June, down to 1.25%. Although the cut came somewhat as a surprise, the statement and the monetary policy report were non-events, in our view. Forecasts were revised just a touch and the tone was very similar to the March report. It looks like the Norges Bank – as much as other central banks – is willing to play down signs of stabilization and it is very cautious to avoid hinting at any possible change in policy. Nevertheless, better growth next year warrants higher rates, in our view. As such, the Norges Bank should raise rates in the second half of 2010, slightly more than what the June report projected at 2.0% by December 2010.

Norway Economic Forecast

y/y%	2007	2008	2009E	2010E
Real Mainland GDP	6.2	2.5	-1.7	2.3
CPI	0.7	3.8	2.1	1.5
Core Inflation (CPI-ATE)	1.4	2.6	2.5	1.7
Policy Rate (end-year)	5.25	3.00	1.25	2.50

Source: Credit Suisse

Switzerland: The slump in global demand has a profound impact on Swiss economic growth

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Swiss GDP contracted by 2.4% (YoY) in the first quarter. Compared with the fourth quarter of 2008, the economy shrank by 0.8%. As expected, the severe slump in global trade volumes had a profound impact on GDP growth, leading to a drop in Swiss exports of 12.3% (YoY). Inventory build-up in the first quarter provided a noticeably positive contribution to GDP growth. Consequently, inventory correction is now likely to weigh on growth in the coming quarters.

Meanwhile, the SVME PMI posted its second consecutive improvement in May and moved back up to 39.8 points. This trend is in line with the stabilization trend of international indicators but the PMI remains at a fairly low level. Order intake and production showed the strongest increases in the most recent readings. Inflation recorded a sharp decline of -1.0% (YoY) in May. The drop remains predominantly driven by oil-related base effects.

At the quarterly monetary policy meeting in June, the Swiss National Bank (SNB) left the three-month LIBOR target band unchanged at between 0% and 0.75% and announced its intent to continue to pursue its chosen expansionary monetary policy course. The SNB confirmed its intention to decisively prevent an appreciation of the CHF against the EUR from current levels. Moreover, the purchase of Swiss franc-denominated bonds from private-sector borrowers will be continued.

The new SNB inflation forecast prognosticates a negative inflation of -0.5% in 2009 and an inflation rate just slightly positive for the subsequent two years. According to the SNB, the deflationary risks have moderated somewhat but still remain in place. Given the still subdued economic outlook and the prevailing deflation concerns, it seems likely that the expansionary measures will remain in place in the months ahead.

Switzerland Economic Forecast

Quarter-to-Quarter %	2009				2010E				Q4/Q4				Annual Average			
Changes at annual rates	Q1	Q2E	Q3E	Q4E	Q1	Q2	Q3	Q4	07	08	09E	10E	07	08	09E	10E
Real GDP	-3.2	-2.8	-0.4	1.1	0.9	0.2	2.2	1.5	3.8	-0.6	-1.3	1.2	3.4	1.6	-2.0	0.6
Consumer Spending	0.2	2.6	1.7	1.5	-12.9	9.0	5.8	14.2	3.0	1.0	1.5	3.5	1.6	1.7	0.9	0.4
Government	5.8	-13.8	2.9	2.4	14.6	-15.8	2.0	2.0	-3.2	3.3	-1.0	0.1	-0.9	0.0	0.7	0.4
Investment	-1.6	3.0	-8.8	-6.1	5.8	1.0	-5.4	-5.7	2.6	-5.4	-3.5	-1.2	4.7	-1.7	-5.0	-1.6
Domestic Demand	0.4	0.8	-0.8	0.0	-6.2	3.6	2.8	8.7	2.2	-0.3	0.1	2.1	1.4	0.7	-0.4	-0.1
Exports	-20.0	34.3	2.1	-10.7	-20.0	42.1	4.6	-8.9	6.1	-7.2	-0.5	2.0	9.9	2.3	-6.8	1.0
Imports	0.0	21.0	1.7	-18.7	-4.0	23.5	8.0	-21.9	3.2	-6.4	0.0	0.0	6.5	-0.2	-1.5	-0.1
Industrial Production (y/y%)	-9.5	-5.1	-8.0	-5.9	-4.0	-1.7	0.0	1.0	9.6	-5.6	-5.9	1.0	7.8	1.5	-7.1	-1.2
CPI (y/y%)	0.0	-0.3	0.0	0.8	1.5	0.9	0.8	1.1	1.7	1.6	0.8	1.1	1.1	2.4	0.2	1.0
3-Month LIBOR Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	...	...	...	...	...	...	...	...	...	...

Source: Credit Suisse

Canada: Signs the recession should end

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We have held the view all year that the Canadian economy would return to positive growth by Q3. Two important indicators bolster this call: auto output and small business expectations.

Auto output should rise in back-to-back quarters in Q2 and Q3 (on a seasonally adjusted QoQ basis) for the first time in over two years. Last month, we thought that the announced shutdowns by automakers that were in the restructuring process pointed to downside risk for auto production in Q3 relative to Q2. However, the published output schedules point to the opposite occurring, and, notably, a rise in July that goes against long-standing and decidedly negative seasonal patterns. Seasonally adjusted outcomes for auto production and the auto components in manufacturing and wholesale sales and exports could start Q3 on a strong up-note. Over time, the trend in auto production has a close correlation with the trend in real GDP.

Small business expectations are on the mend. The CFIB Business Barometer Index expanded for a second straight month in May, coming in at 60.4, up from December's cycle low of 39.4. The improvement was broad based, but the biggest gains were seen in cyclical industries, like construction, manufacturing, wholesale, retail and transportation (Exhibit 1). The CFIB Business Barometer Index, like auto production, also tracks real GDP growth well over time.

Exhibit 1: CFIB Business Barometer Index

	Dec '08	May '09
Canada	39.4	60.4
Agriculture	45.6	46.5
Natural resources	28.0	40.4
Construction	35.8	56.7
Manufacturing	31.6	57.5
Wholesale	34.5	56.9
Retail	37.2	62.6
Transportation	26.3	50.4
Arts, recreation, info.	58.0	54.2
Finance, insur. realty	50.5	62.6
Prof., business services	49.0	63.3
Health & education serv.	55.3	63.6
Hospitality	48.0	53.1
Other services	43.1	54.4

Sources: CFIB, Credit Suisse. A level of 50 designates the breakeven between expansion and contraction.

Canada Economic Forecast

	2009				2010				Q4/Q4				Annual Average			
	Q1	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E	07	08	09E	10E	07	08	09E	10E
Real GDP (ann. QoQ%)	-5.4	-1.5	1.0	2.0	3.7	3.7	3.7	3.7	2.8	-1.0	-1.0	3.7	2.5	0.4	-2.0	2.7
CPI (YoY%)	1.2	0.0	-0.5	1.3	2.0	1.9	1.9	1.9	2.4	1.9	1.3	1.9	2.1	2.4	0.5	1.9
Core CPI (YoY%)	1.9	1.7	1.6	1.2	1.4	1.5	1.7	1.7	1.6	2.2	1.2	1.7	2.1	1.7	1.6	1.6
BoC overnight rate (end-qtr)	0.50	0.25	0.25	0.25	0.25	0.25	0.50	1.00	…	…	…	…	…	…	…	…

Sources: Statistics Canada, Bank of Canada, Credit Suisse

Non-Japan Asia: Improved growth outlook

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The following is a summary of the forecast revisions for non-Japan Asia in the *Emerging Markets Quarterly - 3Q 2009*.

We have revised up our regional 2009 GDP growth forecast (average weighted) to 4.7% from 4.4%, and raised 2010's to 7.3% from 6.7%. Better-than-expected domestic activity, apparent stabilization in the export downturn, and a more optimistic turn on our global outlook were the drivers. The most significant upgrade was on India, where both 2009 and 2010 GDP growth forecasts were revised up by over one percentage point. China's 2010 growth was revised up to 9%, from 8.5% previously. Other economies that saw visible upgrades include Indonesia, Korea, and Taiwan. Meanwhile, we have also revised up our regional inflation forecasts (average weighted) for 2009 and 2010 to 2.5% and 4.3%, respectively, reflecting rising cost-push pressure from food and commodities.

We left China's 2009 growth forecast of 8% unchanged, but revised up GDP for 2010 to 9% from 8.5%. We believe China is on the right track for a recovery. We have been upbeat on growth since late last year and therefore see no need to make further changes, but we expect our competitors to upgrade their forecasts further. The surprise for us from our last quarterly is how fast the property sector has turned around, fuelled by excess liquidity and very low mortgage costs. We think transaction volume and prices will hit new records over the next 12 months and become a new driver for the economy. We also revised up our year-end inflation forecast to 4.1% yoy from 2.5% yoy.

We revised India's real GDP growth forecast to 6.2% from 4.9% for 2009 (year beginning April). The upward revision reflects our expectation for industrial output to recover sooner and more forcefully than we thought earlier, thanks in part to constraints on foreign investment financing easing. The Congress Party's election victory and improved prospects for reform have the potential to increase capital inflows and foreign direct investment. Prospects for big-bang fiscal, labor, and retail sector reforms, however, are weak.

We also revised up India's forecast of annual WPI inflation to 6.2% at end-March 2010 from 4.3% earlier, with the balance of risks to the upside. Rising commodity and food prices have lifted weekly WPI inflation rates recently. Assuming crude oil prices stay flat at $70 per barrel through end-March 2010 and various soft and hard commodity prices rise slightly further from here, annual WPI inflation is likely to approach 6% in Q1 calendar year 2010 from around 0% now and even less (i.e., negative inflation rates) in the months ahead. If commodity prices rise faster than we assume, WPI inflation could go higher and vice versa. We expect the RBI to keep repo rates unchanged through end-March 2010 and potentially hike the cash reserve ratio.

Growth forecasts were revised up in most of the other economies. Stronger China growth and the anticipated bottoming of the US economy have prompted us to upgrade Hong Kong's 2010 GDP growth to 3%. For Korea and Taiwan, the GDP contraction in 2009 was revised milder, as the downturn looks less severe, as first thought. Slightly faster growth momentum is likely to carry into 2010. We have also revised up our real GDP growth forecast for Indonesia for 2009. In contrast, lower-than-anticipated real GDP growth in Q1 2009 has resulted in us cutting our annual real GDP forecasts for the Philippines and Thailand, but we expect a gradual recovery in quarterly output in the remainder of 2009. We have revised up our real GDP forecasts across Southeast Asia for 2010, largely owing to the low base effect from 2009.

NJA Economic Forecast

	GDP growth (% yoy)				CPI inflation (year end, % yoy)				Current account (% of GDP)			
	Credit Suisse forecasts Previous		Credit Suisse forecasts as of June 2009		Credit Suisse forecasts Previous		Credit Suisse forecasts as of June 2009		Credit Suisse forecasts Previous		Credit Suisse forecasts as of June 2009	
	2009F	2010F	2009F	2010F	2009F	2010F	2009F	2010F	2009F	2010F	2009F	2010F
China	8.0	8.5	8.0	9.0	0.5	2.5	1.6	4.1	5.6	5.0	5.8	5.0
Hong Kong	-5.2	2.3	-5.2	3.0	1.0	2.0	0.4	3.5	8.6	8.8	11.5	11.2
India*	4.9	6.2	6.2	7.4	4.3	5.2	6.2	6.3	-2.0	-1.8	-1.8	-2.7
Indonesia	2.8	4.0	3.6	4.7	4.7	6.6	4.7	6.2	-0.7	-0.8	-0.6	0.0
Korea	-2.7	3.0	-2.2	3.7	1.8	3.5	2.4	3.5	3.7	2.2	3.7	2.1
Malaysia	-3.7	3.5	-3.7	4.2	0.5	2.4	1.4	2.4	14.2	12.1	14.2	14.1
Philippines	1.5	4.0	0.5	4.3	4.5	4.7	4.1	4.9	0.9	0.5	1.2	0.7
Singapore	-6.5	3.9	-6.5	4.4	-2.1	2.4	-1.0	2.4	12.8	15.0	12.2	14.5
Taiwan	-7.2	3.7	-4.8	4.0	-2.4	0.8	-0.9	1.5	6.0	6.3	8.2	7.6
Thailand	-4.0	3.5	-4.3	4.2	3.5	3.0	3.7	3.0	-1.5	-0.5	1.6	1.5
Vietnam	2.0	7.0	4.0	6.5	5.0	7.0	10.1	12.0	-8.9	-6.0	-6.4	-3.8
Asia (average)	**-0.9**	**4.5**	**-0.4**	**5.0**	**1.9**	**3.6**	**3.0**	**4.5**	**3.5**	**3.7**	**4.5**	**4.6**
Asia (average weighted)	**4.4**	**6.7**	**4.7**	**7.3**	**1.4**	**3.2**	**2.5**	**4.3**	**4.0**	**3.6**	**4.4**	**3.8**

Source: Credit Suisse; Note: Average weighted according to 2009F nominal GDP * WPI for India

China: Inflation target for 2010 is revised up

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We believe that the Chinese economy bottomed in Q109, thanks to the effective implementation of fiscal stimulus and monetary expansion. Not only has government-sponsored infrastructure investment been strong, housing construction has also jumped to double-digit growth. On the other hand, exports continue to struggle, but we think a rebound in 2H09 is likely. We maintain our 2009 GDP growth estimate of 8% but have revised up our 2010 estimate to 9% (from 8.5% previously) in anticipation of faster growth momentum next year. We have been upbeat about China since late last year, and we remain optimistic about its growth prospects.

We are concerned about China's inflation outlook and have revised up our year-end CPI forecast from 2.5% yoy to 4.1% yoy for 2010. . Food prices, except for pork, are on the rise already. The property market is also booming, while rising energy and commodity prices may add more upward pressure. With the base effect kicking in, we project CPI to reach 1.6% by the end of 2009. If the global recovery heats up, inflationary pressure could rise further.

The focus on the economy is shifting from "when to bottom" to "when to tighten," in our view, but the process is likely to be slow and mild. The authorities will focus on lowering short-term lending and using IPOs to mop up excess liquidity for now, while the central bank should stay accommodative in bank lending. We expect banks to lend out RMB 400-600bn per month over the summer, slightly lower than the RMB 664.5bn in May but stronger than the past three years' average of RMB 322bn.

In our judgment, inflation and rate hikes will be market themes for 2010. By forfeiting the exit of monetary expansion now, China is likely to face a bigger threat of inflation next year. We expect the central bank to raise lending and deposit rates by 198bps, possibly starting from the beginning of 2010. This would raise benchmark one-year lending and deposit rates to 7.29% and 4.23%, respectively. China is crawling out of the recession ahead of the rest of the world, and we expect it to "normalize" its monetary condition early as well.

China Economic Forecast

(y/y%)	2007	2008	2009F	2010F
GDP	13.0	9.0	8.0	9.0
Real private consumption	10.4	8.3	8.2	8.7
Real gross fixed capital formation	11.4	9.7	10.0	10.3
Foreign direct investment ($ bn)	83.5	108.3	65.0	70.0
CPI inflation (yav)	4.8	5.9	-0.5	3.0
One-year lending rate (%, ye)	7.47	5.31	5.31	7.29
M2 money supply (ye)	16.7	17.8	23.9	17.8
Exports ($ bn)	1,219	1,429	1,274	1,428
% yoy	25.8	17.2	-10.9	12.1
Imports ($ bn)	956.0	1,133	1,051	1,191
% yoy	20.8	18.5	-7.3	13.4
Trade balance ($ bn)	262.7	295.5	222.8	236.7
Current account balance ($ bn)	371.8	426.1	281.5	283.9
as a % of GDP	10.7	9.6	5.8	5.0
USDRMB exchange rate (ye)	7.29	6.82	6.83	6.50

Source: National Bureau of Statistics, Credit Suisse

Emerging Europe, Middle East and Africa

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We forecast that the EMEA region's GDP will contract 3.4% in 2009, following a 4.1% expansion in 2008. When we published our *Emerging Markets Quarterly – Q2 2009* on March 18, we had forecast that the region's GDP would contract 1.5% this year. The forecast revision reflects the deeper-than-expected contraction in economic activity in Q1 2009 in almost all countries in the EMEA region (with the exception of Poland). At the time of the March *Quarterly*, the latest available monthly indicators of economic activity were for the month of January. The monthly data released thereafter pointed to a deeper contraction in economic activity in Q1 2009 than we had expected at the time of the March *Quarterly*, and this was confirmed by the release of the quarterly GDP data for a number of EMEA countries. We had already reflected these developments in our full-year GDP growth forecasts and published revised forecasts for a number of countries before the publication of our *Emerging Markets Quarterly – Q3 2009* yesterday. However, the publication of the new *Quarterly* gives us a chance to present the changes in our forecasts over a three-month period in an orderly fashion.

EMEA: Real GDP growth rates

%, annual

	March 2009 *Quarterly*			June 2009 *Quarterly*		
	2008E	2009F	2010F	2008	2009F	2010F
EMEA	**4.1**	**-1.5**	**2.5**	**4.1**	**-3.4**	**2.6**
Czech Republic	3.2	-1.6	1.4	3.2	-2.5	1.2
Hungary	0.5	-4.5	0.0	0.5	-6.4	0.0
Kazakhstan	3.2	-2.0	1.5	3.2	-2.0	1.5
Nigeria	5.6	3.7	4.1	5.6	3.3	4.1
Poland	4.8	0.6	1.7	4.8	0.5	1.2
Russia	5.7	-2.0	3.4	5.6	-6.3	3.5
Saudi Arabia	4.2	0.1	3.3	4.2	0.2	2.9
South Africa	3.1	0.7	2.8	3.3	-0.7	2.8
Turkey	0.7	-3.0	1.2	0.7	-3.7	2.0
Ukraine	2.1	-8.0	1.5	2.1	-10.0	1.3
United Arab Emirates	6.0	-2.5	2.7	7.4	-2.4	2.9

Source: IHS Global Insight, Credit Suisse; Note: Regional aggregates weighted using country nominal GDP figures for 2008

The downward revision in our growth forecasts for 2009 is a reflection of the worse-than-expected developments in Q1 2009, not a gloomier outlook for the rest of this year. For most EMEA countries, economic activity indicators – mainly industrial production – have either stabilized since mid-Q1 or bottomed out in late Q1/early Q2. We continue to expect the region to stage a modest rebound in 2010 and grow 2.6% next year – broadly unchanged from our forecast of 2.5% in the March *Quarterly*.

The pace of import compression in the EMEA countries has been generally sharper than we expected, leading to a better outlook for the current account balance of the EMEA region. In the March *Quarterly*, we forecast that the region's current account balance would move from a surplus of 3.3% of GDP in 2008 to a modest deficit of 0.1% of GDP. However, we now think that the EMEA region's current account balance will still be in surplus – around 0.6% of GDP – in 2009, although this will be lower than last year's 4.4% of GDP surplus. This revision is mainly driven by the sharp pace of import compression in the EMEA countries, rather than a significant change in our average oil price assumption for 2009 (about $50/bbl), which is obviously the key determinant of the current account surplus forecast for Russia – the region's heavyweight. Under an average oil price assumption of about $60/bbl in 2010, we expect the region's current account surplus to improve to 0.9% of GDP in 2010.

EMEA: Current Account Balances

% of GDP

	March 2009 *Quarterly*			June 2009 *Quarterly*		
	2008E	2009F	2010F	2008	2009F	2010F
EMEA	**3.3**	**-0.1**	**1.0**	**4.1**	**0.6**	**0.9**
Czech Republic	-3.0	-2.5	-2.9	-3.0	-2.7	-3.0
Hungary	-6.9	-3.0	-2.3	-8.5	-3.4	-2.9
Kazakhstan	6.6	-3.3	-1.2	6.6	-3.3	-1.2
Nigeria	0.6	-4.6	-2.4	0.5	-4.7	-2.4
Poland	-5.3	-4.1	-3.6	-5.3	-3.0	-2.7
Russia	5.9	0.9	2.9	5.9	1.9	1.8
Saudi Arabia	25.8	7.4	11.0	33.0	12.3	13.4
South Africa	-7.8	-6.0	-6.4	-7.4	-6.0	-5.8
Turkey	-5.6	-2.5	-3.4	-5.7	-2.2	-2.8
Ukraine	-6.8	0.8	0.8	-7.3	0.8	0.8
United Arab Emirates	21.0	10.6	10.8	23.5	4.6	6.7

Source: IHS Global Insight, Credit Suisse

We revised our regional inflation forecasts for both 2009 and 2010 modestly down. We forecast that regional inflation will decline to 7.7% yoy in 2009 and then further to 6.2% yoy in 2010. Although we recognize that base effects are turning unfavorable for commodity prices, the gradual pace at which economic recovery is likely to take place in the EMEA region will probably continue to keep core inflation subdued. At the time of the March *Quarterly*, we forecast that inflation would decline to 8.4% yoy in 2009 and then to 6.6% yoy in 2010.

EMEA: CPI inflation rates

%, end-period

	March 2009 *Quarterly*			June 2009 *Quarterly*		
	2008E	2009F	2010F	2008	2009F	2010F
EMEA	**10.6**	**8.4**	**6.6**	**10.6**	**7.7**	**6.2**
Czech Republic	3.6	1.5	2.5	3.6	1.5	2.5
Hungary	3.5	2.7	2.5	3.5	6.4	2.5
Kazakhstan	9.5	10.5	11.0	9.5	10.5	11.0
Nigeria	15.1	13.0	11.0	15.1	10.2	9.5
Poland	3.3	2.8	2.2	3.3	3.0	3.2
Russia	13.2	13.4	9.5	13.2	12.5	9.0
Saudi Arabia	9.0	2.3	1.6	9.0	2.3	2.0
South Africa	9.5	6.8	6.0	10.4	6.2	5.6
Turkey	10.1	6.4	6.2	10.1	6.0	5.8
Ukraine	22.3	16.0	14.5	22.3	14.7	13.3
United Arab Emirates	13.1	4.4	2.2	12.3	-0.6	-0.8

Source: IHS Global Insight, Credit Suisse

Against a backdrop of lower inflation and weaker growth for 2009, we expect the regional aggregate policy rate to decline to 7.3% this year. This forecast is lower than our 2009 forecast of 8.6% at the time of the March *Quarterly*, but the country-specific revisions have in most cases been published prior to the publication of our new *Quarterly* yesterday. We expect the regional policy rate to edge modestly lower in 2010 to about 7.1%. The main exception to this regional trend is Turkey. We expect the pass-through impact from the weaker lira to inflation to become more discernible in late 2010 as economic activity starts to show sustainable signs of recovery. In that regard, the monetary policy tightening that we expect in Turkey in 2010 is likely to take place later in the year rather than earlier.

EMEA: Policy rates

	March 2009 *Quarterly*			June 2009 *Quarterly*		
	2008E	2009F	2010F	2008	2009F	2010F
EMEA	**10.1**	**8.6**	**8.2**	**10.00**	**7.34**	**7.07**
Czech Republic	2.3	1.5	1.5	2.25	1.50	1.50
Hungary	10.0	8.0	7.5	10.00	8.50	7.50
Kazakhstan	10.5	9.0	9.0	10.50	9.00	9.00
Nigeria	9.8	9.0	8.5	9.75	7.50	7.50
Poland	5.0	3.5	3.5	5.00	3.50	3.75
Russia	13.0	13.0	11.0	13.00	11.00	9.50
Saudi Arabia	2.9	1.3	2.4	2.89	1.07	1.15
South Africa	12.0	8.5	8.5	12.00	7.50	7.50
Turkey	15.0	10.0	12.0	15.00	8.00	10.00
Ukraine	12.0	12.0	9.0	12.00	11.00	9.00
United Arab Emirates	4.2	2.7	3.1	2.40	1.40	1.70

Source: IHS Global Insight, Credit Suisse

We revised our 2009 fiscal deficit forecast for the EMEA region modestly upward, mainly in reflection of the weaker growth forecast; although we expect the budget deficit to narrow in 2010, the pace of correction that we forecast in the fiscal deficits in 2010 is not as rapid as in the March *Quarterly*. We now forecast that the regional fiscal balance will move from a surplus of 2.4% of GDP in 2008 to a deficit of 5.9% of GDP in 2009. In the March *Quarterly*, we had forecast a deficit of 2.6% of GDP for the EMEA region in 2010. We now forecast that the fiscal deficit will be around 3.7% of GDP in 2010.

EMEA: Fiscal balances

% of GDP

	March 2009 *Quarterly*			June 2009 *Quarterly*		
	2008E	2009F	2010F	2008	2009F	2010F
EMEA	**2.6**	**-5.3**	**-2.6**	**2.4**	**-5.9**	**-3.7**
Czech Republic	-1.2	-3.5	-3.2	-1.4	-5.1	-5.1
Hungary	-3.4	-3.0	-2.5	-3.4	-3.9	-3.9
Kazakhstan	1.8	-5.4	3.6	1.8	-5.4	3.6
Nigeria	-2.6	-7.0	-3.5	-2.7	-7.2	-3.7
Poland	-2.2	-3.3	-3.0	-3.9	-4.8	-4.4
Russia	3.9	-6.1	-3.2	3.8	-7.4	-5.0
Saudi Arabia	16.5	-7.3	-1.6	16.5	-4.1	-1.1
South Africa	-1.0	-4.0	-3.2	-1.0	-4.5	-3.7
Turkey	-2.0	-5.7	-3.1	-1.9	-5.7	-3.3
Ukraine	-2.0	-2.7	-2.3	-3.2	-4.0	-2.5
United Arab Emirates	13.1	-2.9	0.6	12.1	-5.8	-2.4

Source: IHS Global Insight, Credit Suisse

Latin America: Economic activity bottoming out

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We think that economic activity bottomed out around the second quarter in most of the Latin American countries under our coverage and that growth will resume in the second half of 2009. The drop in economic activity was so steep in early 2009, however, that year-on-year comparisons will likely be negative for some time to come. For the full year 2009 we are now projecting that regional real GDP will fall by 2.6%, on average, a sharp adjustment relative to last year's average growth rate of 4.1%. If our forecast is accurate, this would mark the slowest annual growth rate in Latin America in the last decade. Our projected real GDP contraction for Latin America in 2009 is slightly smaller than for the EMEA region (-3.4%), and substantially below our projected real GDP growth forecast for Emerging Asia (4.3%).

Compared to our previous quarterly publication, published on 18 March 2009, we have revised downward our 2009 GDP growth projections for five out of the eight Latin American countries under coverage. The most substantial revisions to real GDP growth for 2009 were made to Mexico, Venezuela, Peru and Colombia (see Exhibit 1). Real GDP growth forecasts for Brazil, Chile and Ecuador remained unchanged relative to the previous quarterly publication at -1.0%. The Mexican economy should be particularly weak in 2009, with real GDP contracting by 6.5%, the worst annual result since 1932. On the other hand, we are forecasting that Peru will post the only positive growth rate in the region at 3.0% in 2009. For 2010, we have revised our real GDP forecast for Latin America to 3.7%, from 3.1% in our previous publication, partly due to our expectation of a stronger rebound in Mexico's growth.

We have also lowered our 2009 inflation forecast for Latin America to 5.8%, from 6.5% in our previous quarterly, after inflation reached a regional multi-year high of 8.5% in 2008. Compared to the previous *EM Quarterly* publication, we revised downwards our 2009 CPI inflation projection for all countries except Mexico, Brazil and Ecuador. We revised 2009 year-end inflation projections upward for Mexico to 4.4% from 4.0%, for Brazil to 4.2% from 4.0%, and for Ecuador to 6.0% from 4.6%. Headline CPI inflation in all countries under coverage is expected to decline in 2009 relative to 2008, mainly as a function of lower commodity prices, weaker pricing power due to the economic slowdown and, in some cases, government decisions to freeze administered prices. Meanwhile, for 2010 we project headline inflation in Latin America to accelerate slightly to 6.5%, slightly below our previous forecast of 6.6%.

Our regional forecast for the current account deficit in 2009 narrowed relative to our previous quarterly publication projections. We expect a current account deficit of 1.5% of GDP in 2009, versus our previous forecast of a deficit of 2.2% of GDP, mainly as a function of the rebound in commodity prices and weaker domestic demand. Ecuador and Argentina remain the only two countries that we expect to post current account surpluses in 2009. The country with the largest current account deficit should be Colombia, at 3.6% of GDP, followed closely by Peru at 3.5% of GDP. Our revision to Chile's current account deficit projection in 2009 to 2.2% of GDP from 5.1% of GDP in the previous quarterly, reflects mainly the sharp rebound in copper prices (up 65% from this year's lows).

Our regional fiscal balance estimate for 2009 was revised downward relative from the previous quarterly on the back of increases in fiscal expenditures announced in previous months. We are forecasting a fiscal deficit for the region of 2.9% of GDP in 2009, up from our previous forecast of 2.1% of GDP and 0.6% of GDP in 2008. We are projecting that all countries in the region will post a fiscal deficit this year, with the highest being Venezuela and Brazil at 6.0% of GDP and 3.4% of GDP, respectively.

On the political front, we highlight the following: Mid-term congressional elections in Argentina will be held on June 28. We think the outcome of the elections is unlikely to lead to substantial changes to economic policy in the remainder of the year. In Chile we think the focus in coming months will be on the presidential elections that will take place on December 11, as what was seen as a two-way race has now become a close competition between three candidates. In Colombia, it is unclear if President Uribe will be allowed to seek a third term in the 2010 presidential elections, as congress continues to work on the re-election referendum bill. In Ecuador, the government viewed the buyback of the defaulted debt as a success, leaving us somewhat uneasy as to what it might do to the 2015 Global bonds (on which the government has not defaulted). In Mexico, investor attention is shifting to the July 5 mid-term Congressional elections and the 2010 budget negotiations, with the added bonus that a failure by the government to reduce the dependence on oil of its fiscal accounts may lead to a sovereign rating downgrade later in the year. In Peru, we think that the recent violent confrontation between the police and indigenous groups in the north of the country was an isolated event and that political risk will remain relatively low. Finally, the recent firming in oil prices should improve Venezuela's fiscal and external prospects, partly compensating for the government's increasing interventionist policies and the erosion of property rights.

Latin America Economic Forecast

	Real GDP growth (% yoy)						CPI inflation (Dec/Dec, % yoy)					
	CS previous forecasts			CS forecasts			CS previous forecasts			CS forecasts		
	2008F	2009F	2010F	2008F	2009F	2010F	2008F	2009F	2010F	2008F	2009F	2010F
Argentina	7.0	-1.5	2.0	7.0	-2.5	3.0	7.2	6.0	6.5	7.2	5.5	6.5
Brazil	5.1	-1.0	4.0	5.1	-1.0	4.0	5.9	4.0	4.5	5.9	4.2	4.5
Chile	3.4	-1.0	3.0	3.2	-1.0	3.2	7.1	2.4	3.0	7.1	-0.5	3.0
Colombia	2.5	0.5	2.0	2.5	-1.0	2.0	7.7	5.0	4.5	7.7	3.8	4.5
Ecuador	5.3	-1.0	1.0	6.5	-1.0	0.5	8.8	4.6	4.8	8.8	6.0	6.3
Mexico	1.3	-3.0	2.3	1.3	-6.5	4.0	6.5	4.0	3.5	6.5	4.4	3.5
Peru	9.8	4.5	5.0	9.8	3.0	5.0	6.7	2.5	2.5	6.7	1.9	2.5
Venezuela	4.8	0.0	3.0	4.8	-2.0	3.0	31.9	32.8	32.4	31.9	25.0	32.4
LATAM*	**4.1**	**-1.2**	**3.1**	**4.1**	**-2.6**	**3.7**	**8.5**	**6.5**	**6.6**	**8.5**	**5.8**	**6.5**

	Current account balance (% of GDP)						Fiscal balance (% of GDP)					
	CS previous forecasts			CS forecasts			CS previous forecasts			CS forecasts		
	2008F	2009F	2010F	2008F	2009F	2010F	2008F	2009F	2010F	2008F	2009F	2010F
Argentina	2.5	1.2	1.8	2.3	1.1	2.4	1.2	-0.3	-0.4	1.2	-0.3	-0.4
Brazil	-1.8	-1.7	-2.3	-1.8	-0.9	-1.7	-1.5	-2.1	-0.3	-1.5	-3.4	-1.1
Chile	-2.5	-5.1	-4.1	-2.5	-2.2	-1.8	4.9	-1.0	0.0	5.3	-3.0	-3.1
Colombia	-3.2	-4.7	-4.4	-2.8	-3.6	-3.8	-0.2	-3.0	-2.8	-0.2	-2.9	-3.1
Ecuador	2.4	0.5	-1.4	2.2	0.5	0.7	-0.8	-3.2	-2.1	-1.2	-3.3	-2.2
Mexico	-1.5	-3.3	-3.2	-1.4	-2.6	-2.6	0.0	-2.0	-3.0	0.0	-2.3	-2.6
Peru	-3.3	-3.5	-2.8	-3.3	-3.5	-3.2	2.2	-1.5	-0.4	2.1	-2.0	-1.2
Venezuela	12.2	-0.6	3.8	12.5	-0.5	1.6	-4.7	-4.0	-2.6	-4.7	-6.0	-2.8
LATAM*	**-0.3**	**-2.2**	**-1.9**	**-0.3**	**-1.5**	**-1.5**	**-0.6**	**-2.1**	**-1.4**	**-0.6**	**-2.9**	**-1.8**

Source: Credit Suisse; *Regional macro data weighted using estimated nominal GDP figures for 2008

Brazil: Rebound in economic activity beginning in Q2 2009

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In response to the lower-than-expected GDP contraction in Q1 2009, we have revised our forecast for full-year 2009 GDP growth from -2.0% to -1.0%. We expect the 2009 GDP contraction to be explained by the industry, on the supply side, and investments, on the demand side. Our simulations suggest GDP growth in 2009 is an unlikely scenario, as it would require average GDP growth above 1.5% qoq in the last three quarters of the year. We maintain our expectation of a rebound in economic activity beginning in Q2 2009 and we forecast an average growth of around 1.0% qoq until Q4 2010, resulting in GDP growth of 4.0% in 2010.

We have increased our forecast for year-end 2009 IPCA inflation from 3.7% to 4.2%. Our previous forecasts assumed a 10% decline in retail gasoline prices, which would have contributed 0.5 percentage point to this year's decline in IPCA inflation. However, the recently announced reduction in gasoline prices to the refinery-gate level of only 4.5% (with no impact on consumer prices due to a simultaneous tax increase) has led us to drop out this assumption.

Our forecast for the Selic interest rate at year-end 2009 and 2010 was slightly raised from 8.25% to 8.75%. On June 11, the central bank cut the Selic interest rate by 100bps to 9.25% and mentioned in the communiqué that "any additional monetary easing should be implemented more prudently". In our view, the comment suggests a Selic rate cut of a lower magnitude at the 21-22 July meeting (we expect a rate cut of 50bps at this meeting).

We have lowered our forecast for the current account deficit for 2009 from US$17bn to US$13bn, below the 2008 current account deficit of US$28.2bn. This forecast change was explained by an increase in our expectation for the trade surplus in 2009 (from US$15bn to US$23bn). The recent rebound in commodity prices and signs of a gradual recovery in global economic activity suggest that the exports decline should taper off in H2 2009. The fall in remittances of profits and dividends will also be a determinant of a smaller current account deficit in 2009.

Recovery in the risk appetite of foreign investors, starting in Q2 2009, has caused an increase in net FX inflows into Brazil. As a result, we have raised our forecast for net inflows into the financial account for 2009 from US$15bn to US $36bn, especially due to the prospects of higher foreign portfolio investments (stocks and medium- and long-term fixed-income securities) and short-term inflows. As a result, we forecast that international reserves will reach $213bn at the end of 2009, up from $197.0bn on June 12, 2009 and $193.8bn at the end of 2008. We have revised our forecast for a year-end 2009 FX rate from R$2.20/US$ to R$1.85/US$, implying appreciation from current levels (R$1.95/US$ on June 15).

Brazil Economic Forecast

			2009e		2010e	
	2007	2008	Previous	Current	Previous	Current
Real GDP growth (%)	5.7	5.1	-2.0	-1.0	4.0	4.0
CPI inflation (%)	4.5	5.9	3.7	4.2	4.5	4.5
Current account balance (% of GDP)	0.1	-1.8	-1.3	-0.9	-2.3	-1.7
Selic interest rate target end-of-period (%)	11.25	13.75	8.25	8.75	8.25	8.75
Net debt (% of GDP)	42.0	39.1	42.7	43.0	39.4	40.7

Source: IBGE, Central Bank, Credit Suisse

Summary Forecast Table

		2009E				2010E				Q4 to Q4				Annual Average			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	07	08	09E	10E	07	08	09E	10E
Global	**Real GDP (yoy)**	**-1.8**	**-1.7**	**-1.0**	**0.7**	**2.9**	**3.7**	**4.0**	**4.0**	**4.9**	**0.7**	**0.7**	**4.0**	**5.0**	**3.0**	**-1.0**	**3.7**
	IP (yoy)	-11.8	-9.4	-5.5	-1.4	4.3	5.3	4.6	5.3	5.8	-5.4	-1.4	5.3	5.7	1.3	-7.0	4.9
	Inflation (yoy)	2.8	1.7	1.3	2.6	3.1	3.3	3.3	3.4	4.6	4.7	2.6	3.4	3.8	5.8	2.1	3.3
US	**Real GDP (yoy)**	-2.5	-3.3	-3.1	-1.0	1.3	2.3	3.1	3.5	2.3	-0.8	-1.0	3.5	2.0	1.1	-2.5	2.5
	Real GDP (qoq ann)	-5.7	-0.5	0.3	2.0	3.5	3.5	3.5	3.5	...	...	...	...	...	...	...	...
	IP (yoy)	-11.5	-13.1	-9.2	-5.6	0.1	4.2	3.1	3.5	2.2	-6.7	-5.6	3.5	1.7	-2.2	-9.9	2.7
	Inflation (yoy)	-0.2	-1.0	-1.8	0.7	1.7	1.6	1.3	1.6	4.0	1.5	0.7	1.6	2.9	3.8	-0.6	1.6
	Policy rate (end of period)	0-.25	0-.25	0-.25	0-.25	0-.25	0-.25	1.00	1.50	...	...	...	...	...	...	...	...
Japan	**Real GDP (yoy)**	-8.4	-7.2	-4.9	-0.9	3.3	2.8	1.1	0.4	1.9	-4.4	-0.9	0.4	2.4	-0.7	-5.4	1.9
	Real GDP (qoq ann)	-14.2	3.1	7.1	2.0	1.0	1.0	0.4	-0.8	...	...	...	...	...	...	...	...
	IP (yoy)	-33.8	-21.0	-12.0	-5.0	24.0	6.0	-3.0	-2.0	3.3	-14.5	-5.0	-2.0	2.8	-3.4	-18.0	6.3
	Inflation (yoy)	0.0	-0.8	-1.6	-1.0	-0.6	-0.4	-0.3	-0.1	0.5	1.0	-1.0	-0.1	0.0	1.4	-0.9	-0.4
	Policy rate (end of period)	0.10	0.10	0.10	0.10	0.00	0.10	0.10	0.10	...	...	...	...	...	...	...	...
Euro-16	**Real GDP (yoy)**	-4.8	-5.0	-4.7	-2.6	0.5	1.5	2.0	2.2	2.2	-1.5	-2.7	2.2	2.6	0.6	-4.3	1.5
	Real GDP (qoq ann)	-10.1	-2.0	0.0	1.7	2.2	1.9	2.2	2.5	...	...	...	...	...	...	...	...
	IP (yoy)	-17.7	-19.5	-17.5	-11.8	-4.0	0.5	1.8	2.6	3.3	-9.4	-11.8	2.6	3.7	-1.8	-16.6	0.2
	Inflation (yoy)	1.0	0.2	-0.2	0.9	1.6	1.6	1.4	1.3	2.9	2.3	0.9	1.3	2.1	3.3	0.5	1.5
	Policy rate (end of period)	1.50	1.00	1.00	1.00	1.00	1.25	1.75	2.00	...	...	...	...	...	...	...	...
UK	**Real GDP (yoy)**	-4.1	-4.5	-3.8	-2.0	0.4	1.6	2.4	2.9	3.2	-2.0	-2.0	2.9	3.0	0.7	-3.6	1.8
	Real GDP (qoq ann)	-7.3	-1.8	0.1	1.2	2.1	3.1	3.2	3.2	...	...	...	...	...	...	...	...
	IP (yoy)	-12.1	-12.6	-12.0	-7.9	-1.7	2.3	5.8	7.0	0.7	-7.6	-7.9	7.0	0.1	-2.8	-11.2	3.3
	Inflation (yoy)	3.0	2.1	1.0	1.6	2.7	2.7	2.8	2.9	2.1	3.9	1.6	2.9	2.3	3.6	1.8	2.8
	Policy rate (end of period)	0.50	0.50	0.50	0.50	0.75	1.25	1.75	2.00	...	...	...	...	...	...	...	...
Non-Japan Asia	**Real GDP (yoy)**	...	...	...	...				...	...	...	...	...	10.0	6.7	4.7	7.3
	Inflation (yoy)	...	...	...	...					...	...	...	...	4.2	6.5	0.8	3.8
China	**Real GDP (yoy)**	6.1	7.2	8.8	9.4	9.5	9.0	8.9	8.8	...	...	...	...	13.0	9.0	8.0	9.0
	IP (yoy)	...	...	...	...	...	...	...	...	...	...	...	...	18.5	12.9	8.5	11.5
	Inflation (yoy)	...	...	...	...	...	...	...	...	...	...	...	...	4.8	5.9	-0.5	3.0
India*	**Real GDP (yoy)**	5.7	...	...	...				...	...	...	...	...	9.0	6.7	6.2	7.4
	Inflation (yoy)	...	...	...	...					...	...	...	...	4.7	8.4	2.1	6.3
EMEA	**Real GDP (yoy)**	...	...	...	...				...	...	...	...		6.3	4.0	-3.6	2.6
	Inflation (yoy)	...	...	...	...	...	...	...	...	...	...	...	...	7.8	11.5	8.6	7.1
Latin America	**Real GDP**	...	...	...	...	...	...	...	...	...	...	...	...	5.7	4.3	-2.5	3.6
	Inflation (yoy)	...	...	...	...	...	...	...	...	...	...	...	...	5.4	7.9	6.4	5.8

Source: Credit Suisse Estimates Note: IMF PPP weights are used to compute regional and global aggregate figures. *Annual figures for India are on fiscal year basis.

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