

# GLOBAL

MONTHLY  
UPDATE  
RETAIL REPORTS  
RETAIL HEADLINES  
ECONOMICS



## GLOBAL RETAIL RESEARCH



GLOBAL RETAIL  
RESEARCH & INTELLIGENCE  
Fung Business Intelligence Centre

# BAL

AUG • 2014



## FROM THE DESK OF DEBORAH WEINSWIG

Hello Everyone!

We continue to see the pace of change accelerating in the world of retail. For example, as we were writing this, Family Dollar confirmed they received a non-binding, counter-offer to be acquired by Dollar General for \$9.7 billion. Last week, Dollar Tree also proposed an offer for \$8.5 billion. So there continues to be a lot of M&A activity in the retail space.

Some major European economies released lower Q2 GDP numbers last week, including the German economy contracting and France lowering its GDP forecast. We believe the Eurozone is on a negative spiral toward recession.

In the US, stagnant income continues to impact American shopping plans for the season, and on July 23, the NRF lowered its projection for retail sales growth in 2014 adjusting for the weak 1H. Retail sales are expected to improve in the 2H from the trend in 1H, but not enough to make up for the disappointing 1H. The preliminary reading of US consumer sentiment released on August 15 was lower than expected, which could also impact spending during the holiday season. US elections on November 4, escalated international political unrest, the continued CNN effect, and world impacting health concerns are affecting retailers and customers on a macro level.

On a positive note, weather driven mall foot traffic has improved in the past month and warmer temperatures stretched across the majority of North America are aiding summer clearance. We can only hope for continued moderate temperatures to help drive traffic back to stores.

However, retailers are facing even more challenges after a disappointing Q2 earnings report season. People are escaping these realities by gaming more than shopping. The average number of gaming hours per person continues to increase and shows no signs of slowing down.

One exciting event: the largest IPO in US history, Alibaba's initial offering is set to happen after Labor Day. And Wayfair is looking to raise \$350 Million through an IPO.

Today I was out getting my glasses tightened and the entrepreneur who owns the store asked if we could help him set up his shop and his supply chain. I think we as a company have huge opportunities in our future as we continue to engage in conversations with small companies trying to do business, both in the US and internationally.

As digital and physical worlds collide, we will help you rethink what it means to think inside and outside the box. Stay tuned! We will be the first to let you know what's changing and why!

Warmly,  
Deborah



## FLAT U.S. RETAIL SALES IN JULY

The U.S. released July retail sales growth which remained flat compared to June, and a 3.7% increase since July 2013. According to the Commerce Department, Americans spent more at clothing and grocery stores but scaled back spending at auto dealerships and department stores.

Macro Drivers for Retails Sale	July 2014	June 2014	Sentiment
GDP Growth	Q2: 4%	Q1: -2.1%	+
Unemployment Rate	6.2%	6.1%	-
Gas Price	\$3.68 per gallon	\$3.79 per gallon	+
Weather-driven Foot Traffic	-0.25%	-0.6%	+
New Home Sales	N/A	5040 (millions)	Flat
Change in Food Price Index	1.9% (YTD)	1.9% (YTD)	Flat

From GDP growth to teen unemployment to the cost of gas at the pump, macro factors impact consumer sentiment and consumer spending. The University of Michigan preliminary reading on U.S. consumer sentiment (released August 15) was weaker than expected, coming in at 79.2 versus the Bloomberg consensus estimate of 82.3, indicating a pessimistic outlook. This could portend a potentially disinterested consumer for holiday spending. Meanwhile, consumers' assessment of the current situation improved modestly.

	\$ Sales	🛒 Traffic	↔️ Trans.	📊 Conv. (% points)	🔄 %Return (% points)	🏠 ATV	🛒 SPS
July	-4.5%	-7.8%	-9.5%	-0.05%	-1.1%	6.7%	3.5%
June	-5.8%	-10.8%	-12.0%	-0.1%	-0.8%	7.6%	5.5%
May	-5.7%	-8.0%	-11.6%	-0.2%	-0.6%	7.1%	2.6%
April	-2.1%	-2.1%	-4.5%	0.1%	-0.7%	2.8%	0.5%
March	-10.0%	-5.4%	-10.2%	-1.0%	-0.5%	0.8%	-4.2%

**Sales:** Customer sales net of returns

**Traffic:** Total number of shoppers

**Transactions (TRN):** Sales transactions and returns transactions

**Conversion (CVR):** Sales transactions as a percentage of traffic

**%Returns:** Returns transactions as a percentage of total transactions

**Average Transaction Value (ATV):** Sales divided by transactions

**Sales Per shopper (SPS):** Sales divided by traffic

DEBORAH WEINSWIG

Executive Director-Head, Global Retail Research and Intelligence

[deborahweinswig@fung1937.com](mailto:deborahweinswig@fung1937.com)

646.839.7017



With stagnant income growth, a stalemate in Washington and world events that are mind numbing (the Ukraine, the Middle East, the Ebola virus just head the list), it's no wonder the consumer is cautious and opts to escape realities with games rather than shopping. A silver lining could be the November U.S. elections. Republicans are seeking six seats to take control of the Senate (for a 51 seat majority of a total 100 seats). With 36 seats up for election (21 held by Democrats and 15 by Republicans) the odds favor the Republicans gaining seats, but gaining control is another matter. A potential path to a Republican 51-49 Senate majority features beating incumbents in Arkansas and Montana and then sweeping the Democratic open seats in Iowa, Michigan, South Dakota, and West Virginia. This is not considered plausible. Beating formidable incumbents is a difficult feat as well. A Republican-controlled Senate is unlikely to make a significant difference in governing, but could be a harbinger of a more economically minded government ahead.

According to Retail Next, July continued to show a strong improvement in sales per shopper for 2014 with an increase of 3.5% over last year. The increased level of shopper spend is a positive sign for retailers. Although brick-and-mortar retailers experienced an average YoY decline of 7.8% across traffic, this translated to a less substantial drop of 4.5% in sales. Average transaction value delivered a strong improvement of 6.7%, and conversion remained virtually flat at -0.05% points.

## ECONOMIC WORRIES STILL IMPACTING SPENDING.

Since 2009 the NRF has asked school shoppers how the U.S. economy will impact their spending plans. This year, eight in ten Americans shopping for the season's merchandise have been affected. The survey concludes that more families plan to buy store brand/generic items for school, make do with last year's items, and shop online more often to save money. The latter metric rose from 18.5% to 19.6% of Back-To-School (BTS) shoppers, and from 19% to 21% for Back-To-College(BTC) shoppers (one third of BTC shoppers plan to do comparative shopping online.)

## 2014 RETAIL OUTLOOK CLIPPED BY NRF.

Citing weak retail trends in the first half from which no retailer was immune, the NRF lowered its projection for 2014 retail sales from the 4.1% increase projected in January to a 3.6% increase. H1 sales through June grew at an estimated 2.9% rate reflecting inclement weather in tandem with a weak economy. However, strong employment growth and improvement in consumer and business sentiment support a moderate pace of growth for the remainder of 2014.



## INTERNATIONAL RETAIL UPDATE

**Eurozone August 5:** Eurozone reports its strongest retail growth in 7 years, with retail sales except autos increasing at a 2.4% calendar adjusted annualized rate, driven by a 3.0% increase in sales of non-food products (electronics, computers, books and textiles).

**Britain August 11:** British Retail Consortium reported a 0.3% decline in July same store sales (or like for like), while total sales rose 1.3% lower than the 3.9% rise a year ago. Furniture was the best performing category and food was the worst. Online sales of non-food products grew 14.9% in July, and non-food online penetration was 16.7%, up 140 basis points or 1.4 % from July 2013.

**Switzerland August 11:** Switzerland reported retail sales grew 3.4% YoY, with non-food items outpacing food at 3.6% versus 2.5%.

**China August 13:** China July retail sales grew at 12.2%. In June retail sales rose 12.4%.



## RETAIL TECH UPDATE

- Amazon launched mobile credit card reader Local Register, pushing the company into the crowded and complicated world of mobile payments.
- PayPal added loyalty cards to payment options with an updated app for iOS, Android and Windows Phone.
- Yahoo unveiled a new version of Yahoo Stores, a service aimed at helping small business owners market and sell their goods online, in the hopes of juicing revenue from the booming area of e-commerce.
- Spring, a new direct-to-consumer e-commerce start-up, will bypass large intermediary department stores and facilitate mobile payment with stored credit card information on app.
- JD.com, China's second largest ecommerce site, received a US \$17.2 million investment from Singapore state-owned investment firm Temasek.
- Samsung is officially purchasing SmartThings, a move that should help it keep up with Apple and Google in the area of home automation.
- Australia's Mnemon Ltd. announced plans to acquire Gray's Holdings Pty in a deal that, when complete, will create a company with annual e-commerce sales of about \$407.9 million (\$440 million in Australian currency) and a database of 6.2 million customer names. 48% of the e-commerce sales will come from business-to-business transactions.



## GLOBAL RETAIL HEADLINES — U.S.

### **Suit against Alibaba opens window on the issue of counterfeiting**

Gucci, Yves Saint Laurent and other brands under Kering filed a 147-page complaint on July 9 in the U.S., alleging that Alibaba's shopping, marketing and payment platforms "knowingly make it possible for an army of counterfeiters to sell their illegal wares throughout the world, including the U.S., and are compensated by the counterfeiters." Two weeks after the lawsuit was filed, Kering withdrew its claims against Alibaba because of "constructive dialogue," both parties said in a joint statement. (*WSJ, August 10*)

### **Wal-Mart wants to be your doctor with new in-store clinics**

Wal-Mart recently opened up six health care clinics inside some of its stores in Texas and South Carolina, and it plans to open another six by the end of the year. CVS and Walgreens already have urgent care centers at some of their stores, but the Wal-Mart clinics are being marketed as primary care facilities, capable of treating common illnesses as well as chronic diseases such as diabetes. (*Dayton Daily News, August 11*)

### **Apple is poaching senior management from the fashion industry**

With wearable tech becoming the next great frontier, it only makes sense that Apple wants a piece of the fashion pie, as much as fashion wants a slice of Apple's emerging technology. Recently, Apple has been hiring some huge names from the fashion world. (*Complex, August 12*)

### **Macy's, Inc. reported second quarter earnings of 80 cents per diluted share, an increase of 11 %**

Sales in the second quarter of 2014 totaled \$6.267 billion, up 3.3% from total sales of \$6.066 billion in the second quarter of 2013. Comparable sales, together with comparable sales of departments licensed to third parties, were up 4.0% in the second quarter of 2014 over 2013. Second quarter comparable sales were up 3.4% in 2014 compared to 2013. (*Business Wire, August 13*)

### **Macy's lowers sales outlook**

Macy's now expects a full-year 2014 sales increase of 2% to 2.5%, including the sales results of the stores licensed to third parties. Its previous guidance estimated an increase from 2.5% to 3%. (*Financial Times, August 13*)

### **American Apparel to delay filing of 10Q for the June quarter reports Q2 net sales of \$162 million**

Five of the seven directors of American Apparel resigned on July 9 and four new board members were appointed to fill the vacancies. The new board needs additional time to review the financials and ask questions of management before the company is in a position to finalize the financials for the quarter ended June 30. (*StreetAccount, August 12*)

### **Kate Spade posted upbeat Q2 results**

The New York-based company posted a quarterly loss from continuing operations of \$14 million, or \$0.11 per share, versus a year-ago loss from continuing operations of \$24 million, or \$0.20 per share. Excluding non-recurring items, Kate Spade's adjusted profit came in at \$0.05 per share, beating analyst estimates of \$0.00 per share. (*benzinga, August 12*)

### **Amazon's largest retail competitor may actually have a shot at catching up**

Amazon has had quite a week of challenges: Google and Barnes & Noble teamed up to offer same-day book delivery, and Wal-Mart redesigned its website to mimic online retailers. (*WSJ, August 10*)

### **Shop prices fell 1.9% in July, marking the 15th consecutive deflationary month**

Shop prices fell sharply in July, marking the fifteenth consecutive month of decline as food inflation dropped to its lowest rate. (*Retail Week, August 6*)

### **Plus-size brand Simply Be unveils collaboration with Kelly Brook**

Plus-size brand Simply Be has unveiled collaboration with model Kelly Brook which will see it stock size 10 clothing for the first time. (*Retail Week, August 6*) their phone. (*Retail Week, August 5*)

### **Tesco convenience franchise One Stop launches mobile voucher scheme**

Tesco's c-store business One Stop is launching a mobile voucher scheme that allows customers to redeem coupons in-store using their phone. (*Retail Week, August 5*)

### **Target to keep some stores open until midnight**

Target will keep more than half of its U.S. stores open later starting this month. The company hopes to capture shoppers who put shopping off until after dark, and might have gone elsewhere. Wal-Mart keeps 70% of its U.S. stores open 24 hours a day.

Target will keep the stores open until 10 PM or 11 PM on Sundays and until 11 PM or midnight on other days. The new schedule will be re-evaluated after the holidays.

### **Former Co-op CIO Andy Haywood joins N Brown**

Former Co-op chief information officer Andy Haywood has joined home shopping retailer N Brown in the same role as it plans a major systems overhaul. (*Retail Week, August 5*)

### **Tesco Direct to launch non-food social commerce platform**

Tesco has rolled out social commerce functionality to its non-food ecommerce site through a partnership with co-buying platform Buyapowa. (*Retail Week, August 5*)

### **Walgreens to complete takeover of Alliance Boots**

Walgreens is expected to reveal that it will buy the remaining 55% stake in Alliance Boots, completing the merger of the two giants. (*Retail Week, August 6*)





## Multichannel retailers deliver stronger mobile sales than pureplays

Multichannel retailers are delivering stronger mobile sales growth than their pureplay counterparts, new research has revealed. *(Retail Week, August 6)*

## Sainsbury's to shut non-food site and sell through single grocery platform

Sainsbury's is to close its stand-alone general merchandise website and merge its non-food offer with its core online grocery proposition. *(Retail Week, August 5)*

## Homebase circled by turnaround firms Apollo and OpCapita

Homebase has attracted the interest of turnaround investors Apollo and OpCapita, who are understood to be working on a takeover bid. *(Retail Week, August 4)*



## GLOBAL RETAIL HEADLINES – CHINA

### China refutes claim of government ban on Apple purchases

Apple products such as laptops and tablets are not banned from Chinese government procurement lists, according to the country's chief procurement center, refuting a report claiming Apple was blacklisted based on national security concerns. *(Reuters, August 8)*

### China car probes mark anti-monopoly war

On August 6, China announced that it will punish two auto giants for monopolistic practices, indicating a step up in enforcement of the country's six-year-old Anti-Monopoly Law. *(China Daily, August 6)*

### McDonald's says China food scandal hurting regional results

McDonald's Corp said its business has been hurt by China's latest food scare that forced restaurants in the region to temporarily pull meat items from menus. *(Reuters, August 4)*

### Food scare driving away Yum, McDonald's diners in China

A food safety scare in China is testing local consumers' loyalty to foreign fast-food brands, including McDonald's Corp and Yum Brands Inc, which owns the KFC and Pizza Hut chains. *(Reuters, July 31)*

### Papa John's closes China store over expired pizza dough

Papa John's International Inc. closed an outlet in eastern China after it used expired pizza dough, fueling further concerns about food safety at fast-food chains in the country. *(Bloomberg, July 31)*

### China retail executive Wang being probed in bribery case

Wang, a former Shanghai Friendship Group Inc. and Lianhua Supermarket Holdings Co. Chairman, is under investigation by Shanghai prosecutors on suspicion of taking bribes. *(Bloomberg, July 29)*

## Microsoft's ties with government on the rocks as offices in four cities raided

The country's commerce regulator announced on July 28 that it is conducting an anti-monopoly investigation into Microsoft Corp. because the U.S. software giant was suspected of breaking trade rules, a sign the company's links to the government are fraying. *(Caixin, July 31)*

## UnionPay said to hand payment firms hefty fines over illegal operations

China UnionPay, the government-backed bank card association, has handed third-party payment companies heavy fines for three straight months for conducting illegal operations, an industry source with knowledge of the matter says. *(Caixin, July 30)*

## Hysan sees rental growth at Hong Kong malls even as retail slows

Hysan Development Co., the biggest commercial landlord in the world's costliest area for shop leases, expects to raise rents at its malls even as Hong Kong's retail sales drop. Regarding rents for leases expiring next year, "We will definitely be able to achieve double-digit growth" says Chief Executive Officer Lau Siu-chuen, adding that most will be in the company's newest mall, Hysan Place, in Causeway Bay. "Our rental is pretty firm across the board." *(Bloomberg, August 14)*



## GLOBAL RETAIL HEADLINES – EUROPE

### Ted Baker's e-commerce turnover is up by 55% in 2013/2014

Ted Baker remains one of the best-performing fashion retailers in the UK, with its overall retail sales increasing by 24.6%, approaching £260m in 2013/2014 and the group operating margin improving to 12.3%. *(Retail Week, August 4)*

### Channel Islands-based Sandpiper launched new discount fascia

Retail sales for Sandpiper are estimated to have advanced to £180m in 2013/2014, bolstered by further expansion of its own formats, as well as franchise stores. The new Pet & Home Discount Centre fascia was introduced in May and now trades through a single stand-alone store and two concessions. *(Retail Week, July 30)*

### Direct sales accounted for 31% of Mothercare's UK retail sales in 2013/2014

After the integration problems of the previous year, modest growth was restored at Mothercare's online business in 2013/2014, with Direct sales up 5.0% at £134.1m. UK store sales continued their downward trend, falling back by 7.6% to £432.6m, with LFLs down for the fourth year in a row, albeit at a lower rate of -1.9%. *(Retail Week, July 29)*



## THE GLOBAL FUNG 50

consists of the 50 largest publicly traded retailers in the world, based on annual revenue. Not surprisingly, the list consists of many hypermarkets/supermarkets and drug store chains. We looked at share prices during the past month (July 15 through the August 14 close).

**Bed Bath & Beyond (BBBY-NYSE)** shares gained 4%. BBBY announced a \$1.1 billion share buyback July 17th.

**Canadian based Loblaw (L-TSX)** rose 10.4% in tandem with the July 24 strong earnings report. Adjusted operating income grew 65% and retail sales, excluding the impact of the Shoppers Drug Mart acquisition, grew 1.6%, or 1.8% on a same-store sales basis.

**Supervalu (SVU-NYSE)** achieved the best stock performance, rising 15.3% during the period, reporting better than expected FQ1 sales and earnings July 24. Good news on the earnings call included traffic rising 6% at corporate stores. SVU shares rose steadily in the last 20 trading days—both in anticipation of and subsequent to the earnings report.

## MONTHLY STOCK WATCH: JULY 14 – AUG. 14

Major Stock Performance	S&P 500	NASDAQ Composite Index	FTSE 100	DJ Industrial Average	FTSE Hong Kong
Closing Price in USD	1933.75	4389.25	6632.42	16560.54	925.35
% Change					
1 Month ( July 14-Aug 14)	-1.4%	-0.4%	-1.7%	-1.6%	4.1%
YTD	4.6%	5.1%	-1.7%	-0.1%	6.7%
TTM (52 weeks)	14.5%	19.6%	0.9%	7.4%	11.8%

## BEST PERFORMERS

Company Name	Price	Quarterly EPS FQ1	Current P/E	Div Yield	Free Cash Flow in MM	Price One Month Ago	Price Change	Country of Domicile
Bed Bath & Beyond Inc.	\$61.95	1.14	13.00	0.00	1077	\$60.13	4.0%	U.S.
Loblaw Companies Limited	\$52.64	0.86	220.50	1.85	256	\$47.95	10.4%	Canada
SUPERVALU INC.	\$9.31	0.11	17.65	0.00	-92	\$8.32	15.3%	U.S.

## WORST PERFORMERS

Company Name	Price	Quarterly EPS FQ1	Current P/E	Div Yield	Free Cash Flow in MM	Price One Month Ago	Price Change	Country of Domicile
METRO AG	\$25.83	0.26	#N/A	3.89	-2681	\$31.97	-19.6%	Germany
X5 Retail Group N.V. Sponsored GDR RegS	\$19.33	#N/A	12.96	0.00	253	\$21.00	-11.4%	Russia
Walgreen Co.	\$61.77	0.75	21.17	2.17	3089	\$71.49	-12.9%	U.S.

**Metro AG (MEO-DE)** shares were the worst performers, down 19.6% during the period. For FY14 MEO sees a slight rise in overall sales in local currency, with reported sales roughly equal to FY13, and sets rising expectations for improvement in like-for-like sales (versus -1.3%). Weakness in Russian currency against the Euro will significantly reduce Metro's earnings in Euro terms. The currency weakness coupled with political uncertainties in Russia and decreasing demand in North America, affected Metro's stock performance in the last month.

**X5 Retail Group N.V. Sponsored GDR Reg Sponsor (FIVE-LSE)** the leading Russian food retailer was the second on the worst performer list, down 11.4% from trading days between July 14-August 14. The Group released very strong earnings on August 14, with 16.6% YoY Q2 revenue growth which outperforms consensus by 1.1%. As a result, the stock price was up 3.9%. Investors are expecting the management to raise guidance for the rest of 2014 (currently 12%-14%).

**Walgreen Co. (WAG-NYSE)** The stock tanked by more than 20% in the first week of August in reaction to uncertainties over its acquisition of the British firm Alliance Boots, and a possible inversion. Despite the company announcing that the headquarters will remain in the U.S. this past Wednesday, the monthly stock price change was still at -12.9%. On August 5, the WAG lowered F2016 EPS guidance to \$4.25-\$4.60, well below the consensus of \$5.00, and updated its EBIT goal to \$7.2B, 20% lower than the previous goal of \$9.0-9.5 billion.



## A BROAD PERSPECTIVE

In June, the World Bank updated its global growth projection for 2014 to 2.8%. This lowered 2014 forecast reflects weak short-term economic recovery in the United States, uncertainties in emerging markets and geopolitical risks in Russia and the Middle East. However, stronger growth is expected in advanced economies so the global growth projection for 2015 remains unchanged at 3.4%.

We looked at the World Bank's June 2014 Global Economics Prospects Report (GEP) for regional insight. Overall, high income countries are expected to continue to grow while developing countries will build steadily, but slowly.



Real GDP Growth (%)	2012	2013e	2014f	2015f	2016f
World	2.50	2.40	2.80	3.40	3.50
United States	2.80	1.90	2.10	3.00	3.00
Europe & Central Asia	1.90	3.60	2.40	3.70	4.00
Asia Pacific	7.40	7.20	7.10	7.10	7.00
South Asia	5.00	4.70	5.30	5.90	6.30
Latin America & The Caribbean	2.60	2.40	1.90	2.90	3.50
Middle East & North Africa	0.6	-0.1	1.90	3.6	3.50
Sub-Saharan Africa	3.70	4.70	4.70	5.10	5.10



## UNITED STATES Better Prospects

In Q1 2014, the U.S. economy is estimated to have contracted 2% at an annualized rate. Extreme weather at the turn of the year was an issue, but economic malaise continued through Spring. Subsequently, the 4% annualized pace of growth in Q2 calmed some concerns about U.S. growth.

The U.S. has enjoyed a near-200,000 monthly pace of employment gains since yearend 2010. Yet unfilled job openings are at the highest level since 2001 with no stampede of discouraged workers.



Figure 1 Total U.S. Job Openings vs. Persons Not in the Labor Force (% of Working Age Population, Thousands)



Figure 2. U.S. Banks "Willingness to Lend to Consumers" vs. Nonfarm Payrolls (1-Year Lead)

As the Figure 2 shows, credit conditions – as proxied through bank lending surveys – have had a consistently powerful predictive value for gauging the pace of future economic expansions. These two figures suggest the U.S. has achieved a recovery pace in hiring that seems unlikely to accelerate.

DEBORAH WEINSWIG

Executive Director-Head, Global Retail Research and Intelligence

[deborahweinswig@fung1937.com](mailto:deborahweinswig@fung1937.com)

646.839.7017



## EUROPE & CENTRAL ASIA Spillover Effects

The Eurozone economy stalled in Q2 2014 with a flat GDP reading. The German economy contracted 0.2% and France lowered GDP growth for 2014 to 0.5% from 1%. The region is deeply affected by high unemployment rate, weak consumer prices and geopolitical uncertainties in Ukraine and the Middle East.

Political tensions in Russia and the Ukraine continue to have a spillover effect on smaller trading countries and other remittances. The Euro Area is expected to see its first annual increase in three years, according to GEP. In peripheral countries such as Spain, Portugal and Ireland, growth has been driven by exports. Encouragingly, there are signs that the labor market may be bottoming out, as unemployment rates throughout the Euro Area are beginning to inch down.

On June 5, the ECB announced further monetary easing to prevent persistently low inflation from undermining a sluggish recovery. An unambiguous growth signal for the Euro zone may require stronger action, and this has created a notable impact on currency markets already. Recent establishment of a pan-European banking supervision regime and bailout rules was applauded by the banking sector in the region. Europe's depressed economies have more room to accelerate and recover than does the U.S. due to its advanced recovery pace. Looking forward to 2015 and 2016, GEP anticipates 3.7% and 4.0% economic gains respectively.

Figure 3. Euro-Area Credit Conditions

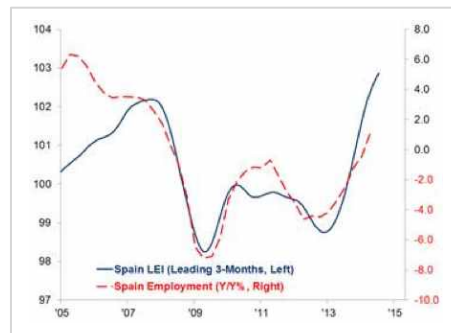


Note: A negative reading = loosening credit, higher demand, and narrower margins

Figure 4. Italy Leading Economic Indicators vs. Employment



Figure 5. Spain Leading Economic Indicators vs. Employment



## ASIA PACIFIC Counterbalance Means Slow and Steady

Following moderate overall growth of 7.2% in 2013, the region remained in transition in Q1 2014, with an insignificant and "in line with potential" slowdown expected by 2016. Growth in China is expected to ease gradually, but accelerated growth is anticipated for much of the region. Many larger economies such as China, Indonesia and Thailand are adjusting from years of credit expansion to a more sustainable growth model. Major risk factors are tied in to potential regional political tensions and tightening of global financial conditions.





## SOUTH ASIA From Slow to Grow

Despite a slow Q1, regional economic growth is expected to pick up after consecutive slowdowns in 2012 and 2013. Industrial activity has been key to the growth component, with India the driving force.

Slow growth in Q1 was due in part to inflation above 7% YoY in Bangladesh, Pakistan, India and Nepal. Despite some consolidation, notably in Pakistan and India, fiscal deficits in the region remain high, in part reflecting weak revenue mobilization. Positive forecasts assume the realization of reforms meant to ease supply side constraints. One of the key risks to this short term outlook is an anticipated light monsoon season. Energy shortages and a fragile security situation in some countries remain impediments to private sector activity.



## LATIN AMERICA & THE CARIBBEAN Widely Positive

These countries have been heavily affected by the economic slowdown in China and volatility in global commodity prices, but as a region, tend toward positive. In 2013, the regional growth was lowered to 2.4% from 2.6%, but after a sub-par 1.9% gain projected for 2014, growth is expected to rise to 5.9% in 2015 and 6.3% in 2016. While growth will likely remain weak in Brazil, Mexico is expected to reflect stronger U.S. growth. Argentina and Venezuela anticipate change following policy adjustments. Weakened global demand will continue to affect this region for the remainder of 2014.



## MIDDLE EAST & NORTH AFRICA The Long Game

Investment in this region remains highly uncertain, due to obvious long term political instability and a lack of optimism for any real immediate change. Regional growth is projected to be 1.9% in 2014 according to the World Bank. Gradual growth is expected by 2016 but will remain weak throughout upcoming reporting periods. With numerous elections in 2014 (Algeria, Egypt, Tunisia, Iraq, and Lebanon), geopolitical risk remains a major factor as does fiscal imbalance and a high youth unemployment rate. Fluctuation in oil prices continue to lower growth in oil-exporting countries although the region's economies may recover quickly if global oil demand rises this year.



## SUB-SAHARAN AFRICA A Mixed Region

Economic growth in Sub-Saharan Africa is expected to remain stable overall at 4.7% in 2014, and is forecasted at 5.1% for 2015-2016, according to the World Bank. This performance is boosted by rising investment in natural resources and infrastructure in certain countries such as Tanzania, Uganda and Kenya. South Africa is expecting subdued growth due to labor strikes and a tight monetary policy. Nigeria is expecting robust growth due to expansion of non-oil sectors. A number of risks will continue to impair overall regional economic growth including weakened commodity prices, political uncertainty, reversal of capital flows and security and health issues, the scope of which remains to be seen.