



WEEKLY REPORT

4 February 2013

*Making sense of global markets,
information and analysis for an informed investment*



This is the fifth issue of the second volume in a series of TeleTRADE Armenia weekly reports offering insightful analysis of international market trends and financial & economic developments, with a focus on Armenia but also covering global market trends and developments in the US, Europe and Asia.

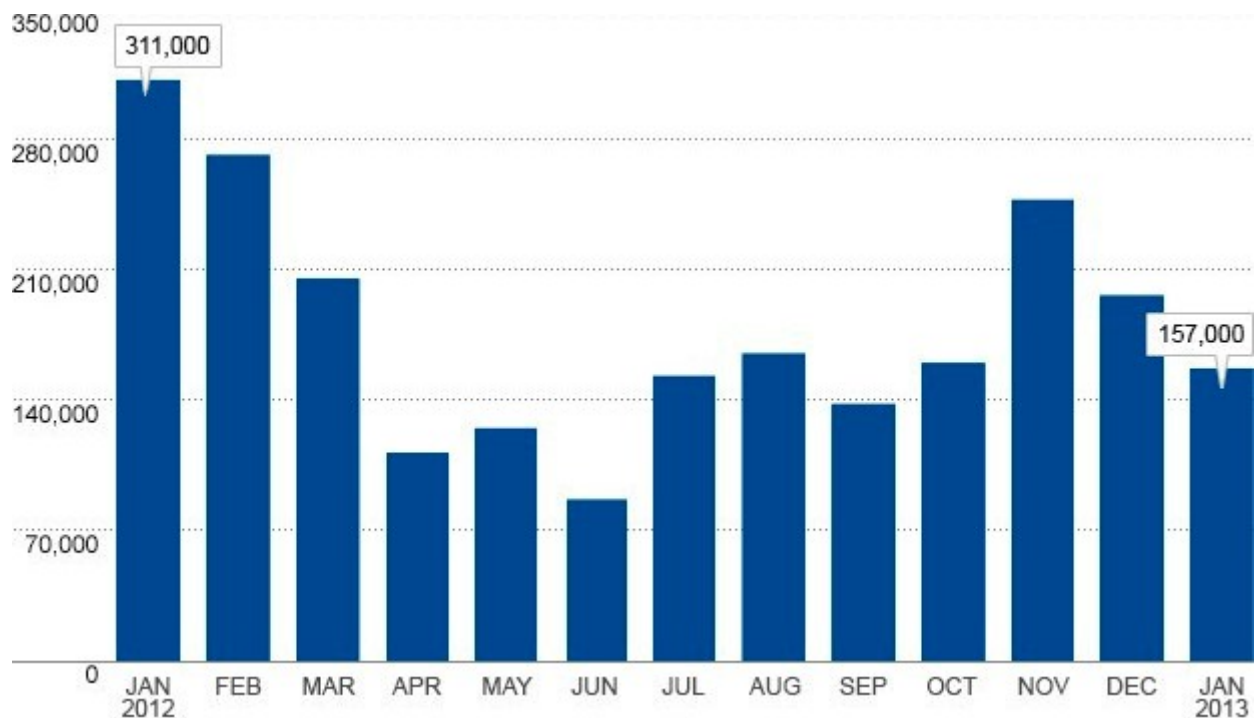
Highlights

- In the US, the GDP unexpectedly contracted in the fourth quarter of 2012, posting a marginal 0.1 percent in annual growth, representing the worst quarter performance for GDP since the second quarter of 2009; For 2012 as a whole, however, GDP grew by 2.2 percent, after sustaining a 1.8 percent increase for 2011; The employment situation improved, but slowly, as monthly job creation was less than previously recorded, but bolstered by a increased construction and a better housing market; Positive investor confidence also drove up the stock market, as the Dow Jones surpassed 14,000 for the first time since October 2007;
- For Europe, signs of economic recovery improved, as German unemployment decline and consumer and business confidence increased, and drove up the euro to above \$1.35 for the first time since 2011;
- According to updated data, the Armenian economy increased by 7.2 percent for 2012, with increases in agriculture, industrial output, and construction; Armenia's overall trade volume increased, with higher exports and imports, but matched by an increase in the average monthly salary.

US Economy Reports Mixed Record

According to new data released last week, the US employment situation improved, but at a slow pace of recovery, as some 157,000 new jobs were created in January 2013, less than the December 2012 rate of 196,000 new workers, and a significant decrease from the January 2012 level of 311,000 new jobs. With unemployment at 7.9 percent in January, or about 12.3 million Americans out of work, the forecast for 2013 sees a gradual fall in the unemployment rate, to about 7.5 percent, but driven by a stronger construction sector and improved housing market (see chart below). Recent data confirmed this, as residential construction increased by 15.3 percent, and for 2012, homebuilding expanded by 11.9 percent, marking the sector's best performance since 1992. Positive investor confidence also drove up the US stock market, as the Dow Jones surpassed 14,000 for the first time since October 2007.

US Employment: New Jobs (thousands)

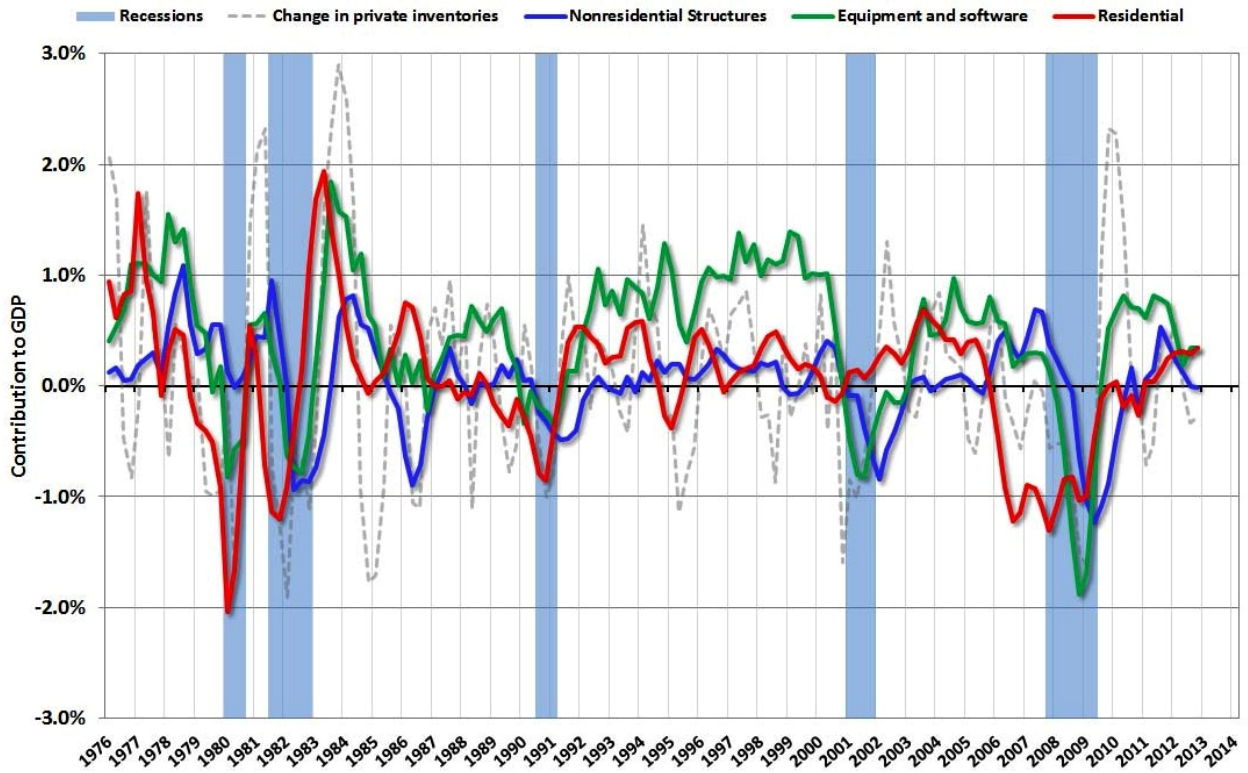


Source: US Bureau of Labor Statistics

The US economy unexpectedly contracted in the fourth quarter of 2012, according to recently released data, as GDP posted a marginal 0.1 percent in annual growth. Statistically the worst quarter for the US GDP since the second quarter of 2009, the unexpected performance was driven by the largest decrease in defense spending in about four decades. More specifically, consumer spending, which accounts for about 70 percent of all economic activity, grew by 2.2 percent annually last quarter, up from 1.6 percent for the previous three-month quarter, with purchases of durable goods, including automobiles, rising by 13.9 percent, the highest level in two years.

For 2012 as a whole, US GDP grew by 2.2 percent, after sustaining a 1.8 percent increase for 2011. But analyzing the fourth quarter 2012 decline in GDP, the most significant aspects were related to the 2.2 percent increase in personal consumption expenditures (PCE), an improved rate from the third quarter's 1.6 percent increase, and residential investment (RI) increased at a 15.3 percent annual rate, up from 13.5 percent for the third quarter, representing a positive GDP contribution for the seventh consecutive quarter (see chart below).

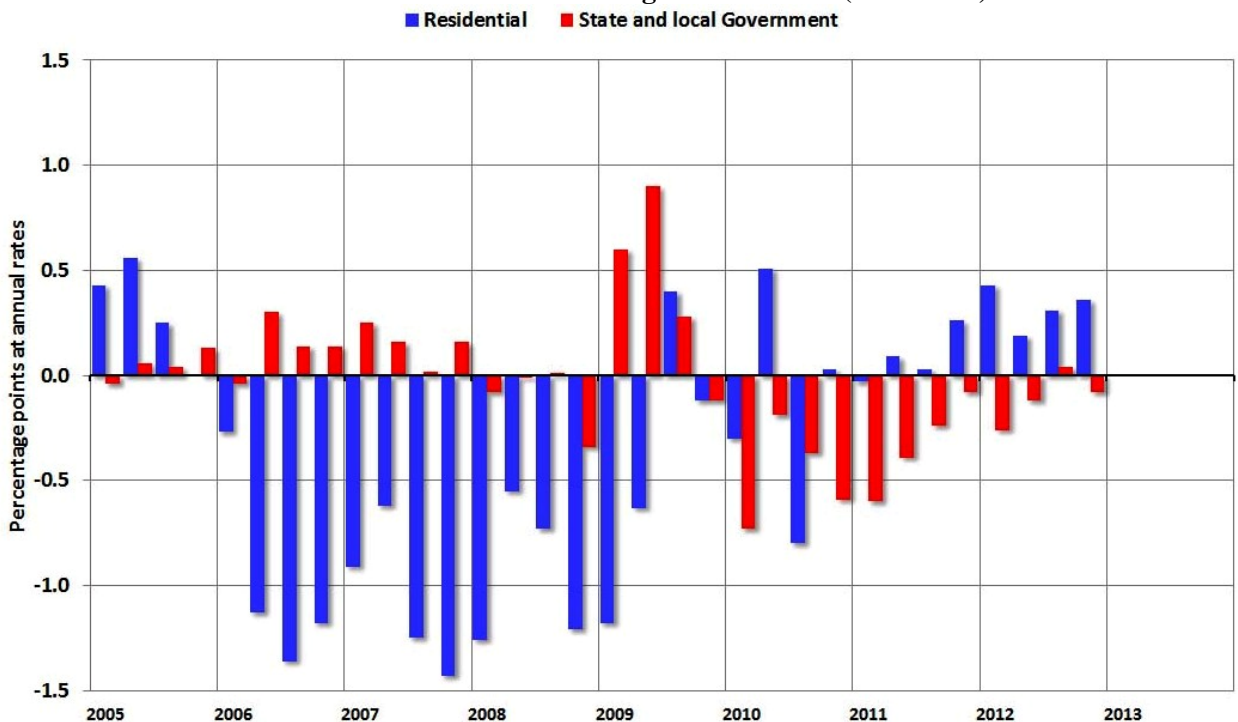
Investment Contributions to Real GDP 1976-2014
 (percentage change; three-quarter centered average)



Source: www.calculatedriskblog.com

Although residential investment was a positive contributor to GDP growth for the last seven quarters, this was offset by declining state and local government spending (see chart below).

Contributions to Percent Change in Real GDP (2005-2013)



Source: www.calculatedriskblog.com

The Global Economy

Signs of a strengthening world economy also continued through this period, driven by greater Chinese economic growth, which accelerated in the fourth quarter for the first time in two years, raising prospects of a broader regional improvement. The World Bank also released new projections estimating a 5.5 percent economic expansion for developing countries through 2013, a higher rate of growth from 2012.

The Outlook for Europe

For Europe, there were signs of a further economic recovery, as the level of both consumer and business confidence increased in January to the highest point in seven months. That greater confidence also strengthened the value of the euro, which rose above \$1.35 for the first time since 2011. But the outlook for the Spanish economy remained weak, tending to dampen signs of a broader recovery for the eurozone, as Spain's economy was still locked in recession. And according to the European Central Bank, the overall eurozone economy is expected to contract 0.3 percent this year before resuming positive annual growth of 1.2 percent for 2014, with the unemployment rate of a record 11.8 percent in November 2012 expected to post yet another increase to 11.9 percent. At the same time, there were positive developments in the German economy, with German unemployment unexpectedly declining last month.

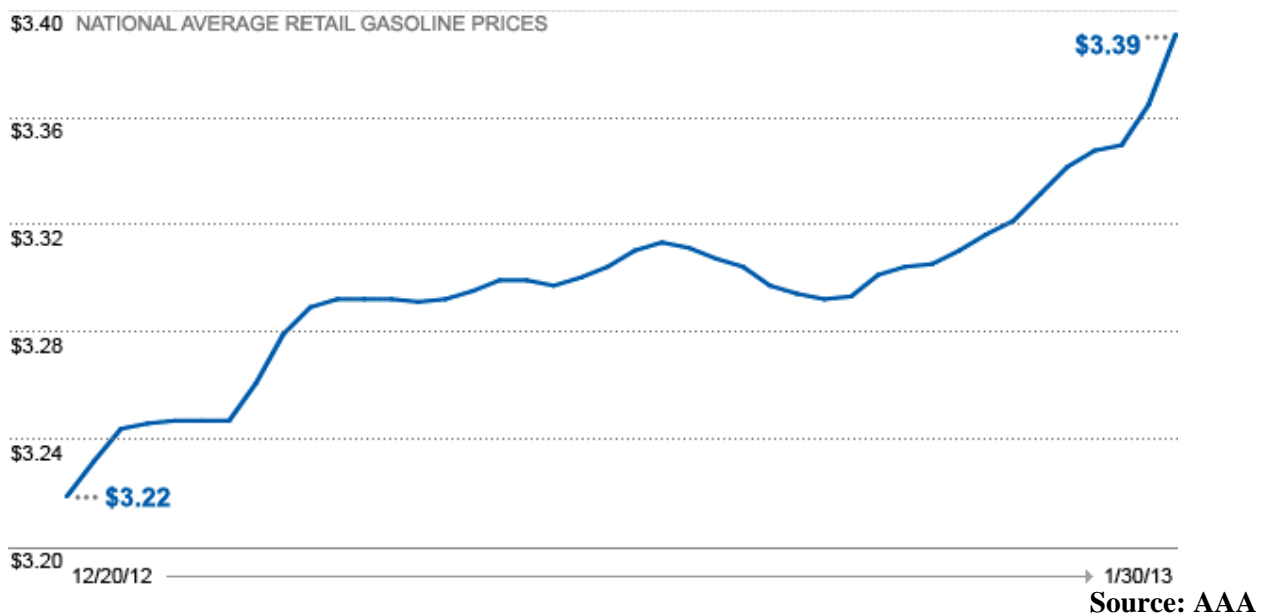
Focus on Asia

In Asia, rural Chinese incomes rose faster than urban income for a third straight year in 2012 as migrant workers gained higher salaries and the Chinese government strengthened the social safety net. The Thai economy also posted an increase of 5.7 percent for 2012, driven by a sustained recovery of the Thai manufacturing sector, stronger domestic consumption and increased exports.

Global Commodities

Through this period, energy prices have generally continued their upward increase. For January 2013, crude oil prices have risen by more than 4 percent, now nearing \$100 per barrel. At the same time, in the US, gasoline futures increased at an even higher rate, rising by some 8 percent last month (see chart below), although prices for natural gas, which is mostly used to heat homes, fluctuated due to weather volatility, but decreasing by about 4 percent in January 2013.

US Gas Prices



Spotlight on Armenia

According to updated data released last week by the Armenian National Statistical Service, the Armenian economy increased by 7.2 percent for 2012, with increases of 9.5 percent for the agricultural sector, 8.8 percent in industrial output, and a slight 0.2 percent gain for the construction sector last year. The revised data also included new trade data, showing a slight 3.6 percent increase in the country's overall trade volume, with a 7 percent expansion in exports and a 2.9 jump in imports. The service sector posted a gain of 10.8 percent last year, while the average monthly salary was reported to have increased by 5.1 percent, with a 4.3 percent rise in public sector salaries and a 5.5 percent increase in the private sector's average monthly income.

In a statement last week, Armenian Energy Minister Armen Movsisian reported that ongoing Russian-Armenian negotiations over the price for Armenian imports of natural gas from Russia were now in "the final phase." The talks with the Russian gas giant Gazprom are widely expected to close with a significant increase in the price of Russian gas, although both sides seem intent to wait until after the February 18 Armenian presidential election before announcing the new price rate. That speculation is also confirmed by data from the Armenian customs service, which tends to refute the Armenian government's official claim that Russian gas imports cost \$180 per thousand cubic meters of gas. More specifically, the customs data show that Armenia imported some 304.6 million cubic meters of Russian gas worth \$74.4 million for the third quarter of 2012, representing a price of about \$244 per thousand cubic meters.

-Richard Giragosian and Robert Ghazinyan



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