

Hope, headwinds or hurricanes?

Charting a course for
the global
economy

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Where are we now?

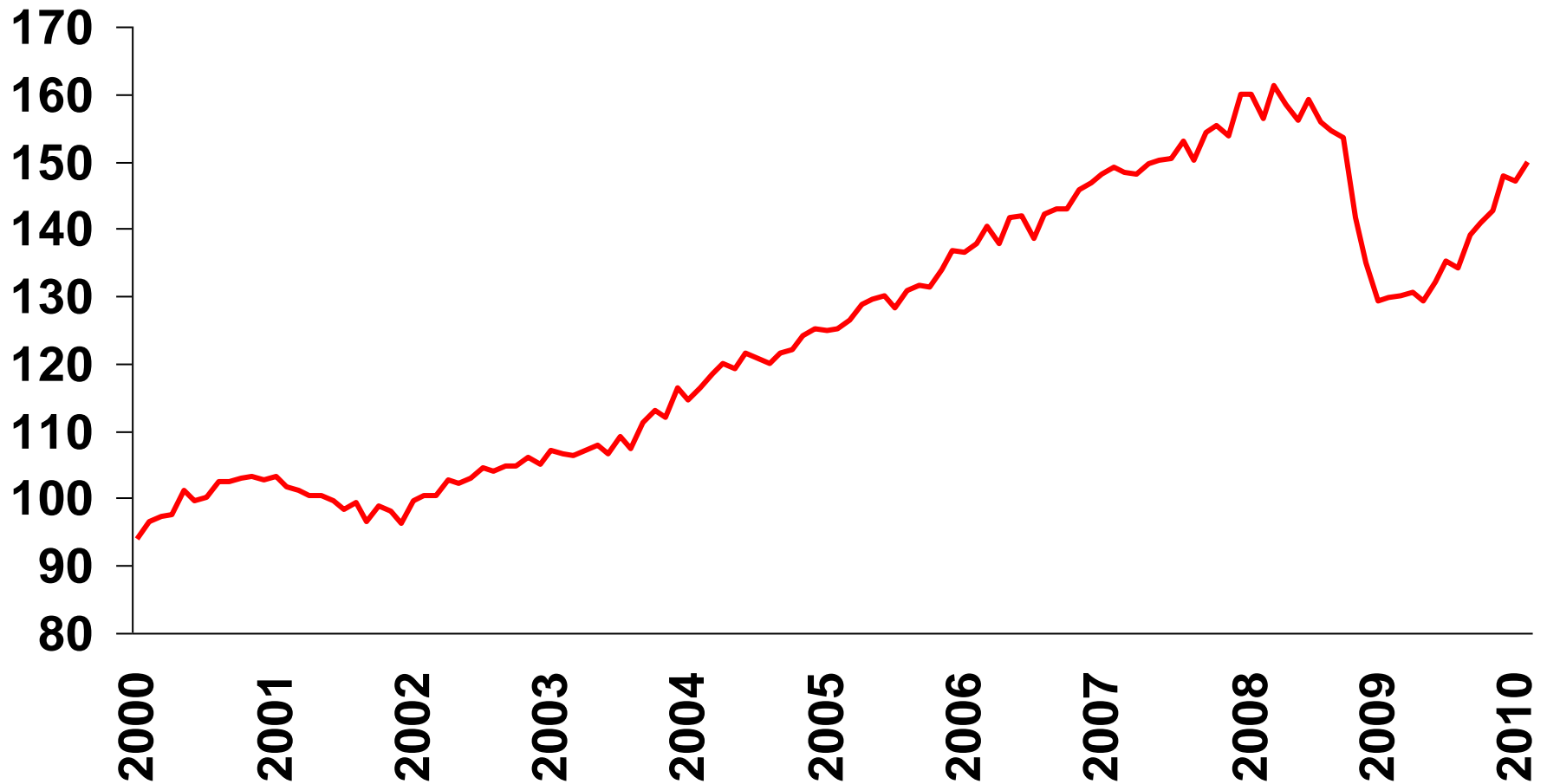
Key points

A recovery is under way ...

- US: 500,000 new jobs in 1H 2010 beats 4m jobs lost in 1H '09
 - But job growth is slow; still 7.5m jobs below the peak
- Europe shows signs of life
 - Germany improving, but the EU periphery is drowning in debt
- Does a global double-dip recession lie ahead?
 - Probably not. Why?
 - ▶ Strong emerging markets
 - ▶ Active central banks
 - ▶ Stimulus still available
 - ▶ Corporate profits



Global: World trade recovers strongly



World trade volumes. 2000=100. Seasonally adjusted.
Source: CPB Netherlands Bureau for Economic Policy Analysis.

Why the bounce-back?

Too fast, too hard

- Firms cut back very aggressively in a climate of fear and panic
 - Overdid it
 - Correcting inventory overhang

International rescue

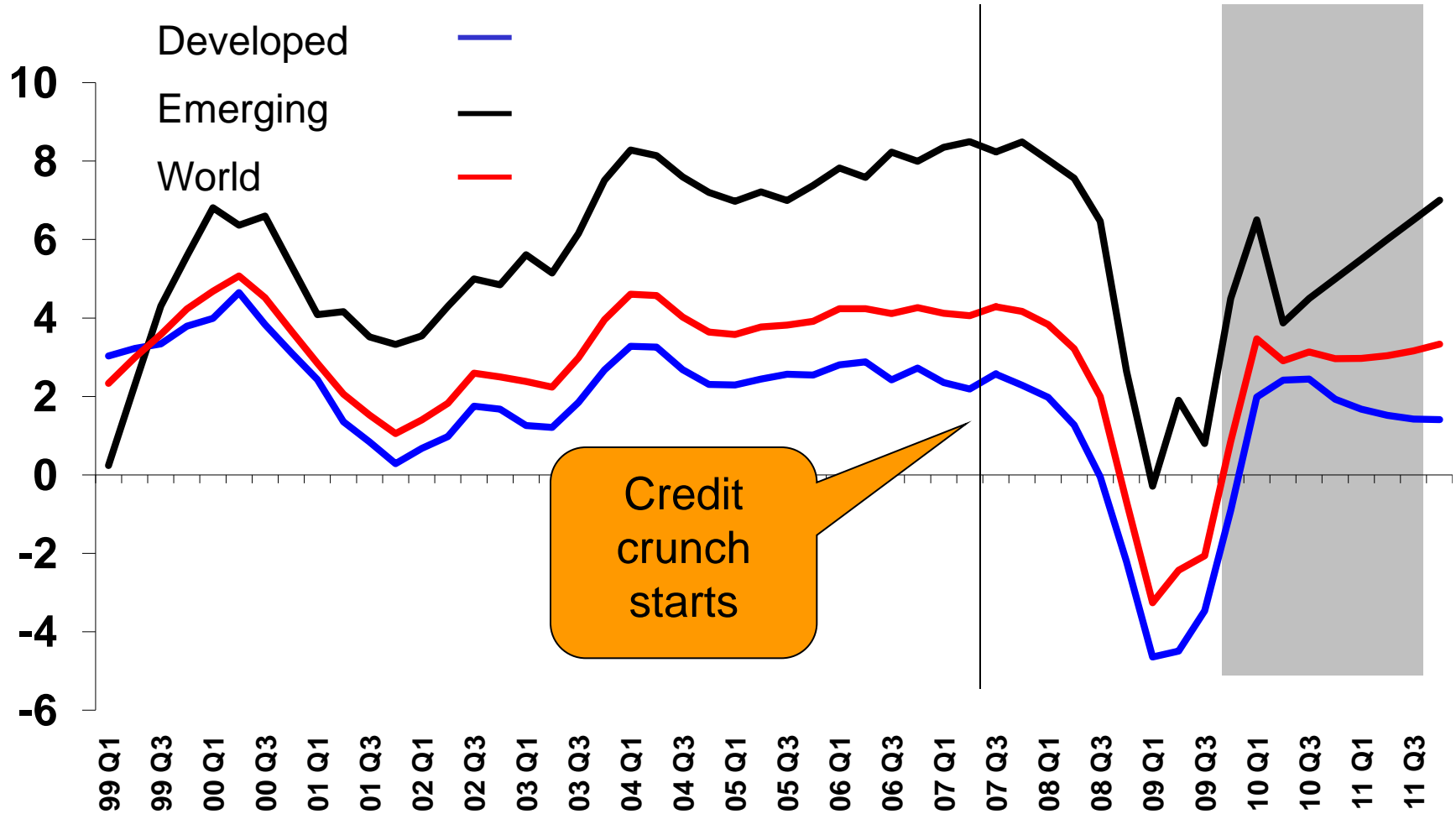
- Interest rates slashed
- Printing money
- Government spending splurge
- Tax cuts
- Bank bailouts

Emerging market serenity

- Domestic demand
- More trade amongst themselves
- Less banking stress



Global outlook: Upswing, but uneven



US, Europe and Japan

US: Weakening after strong surge...

... as pent-up demand, stimulus fade; growth will average 2.5% for the year

Inventories tell the tale

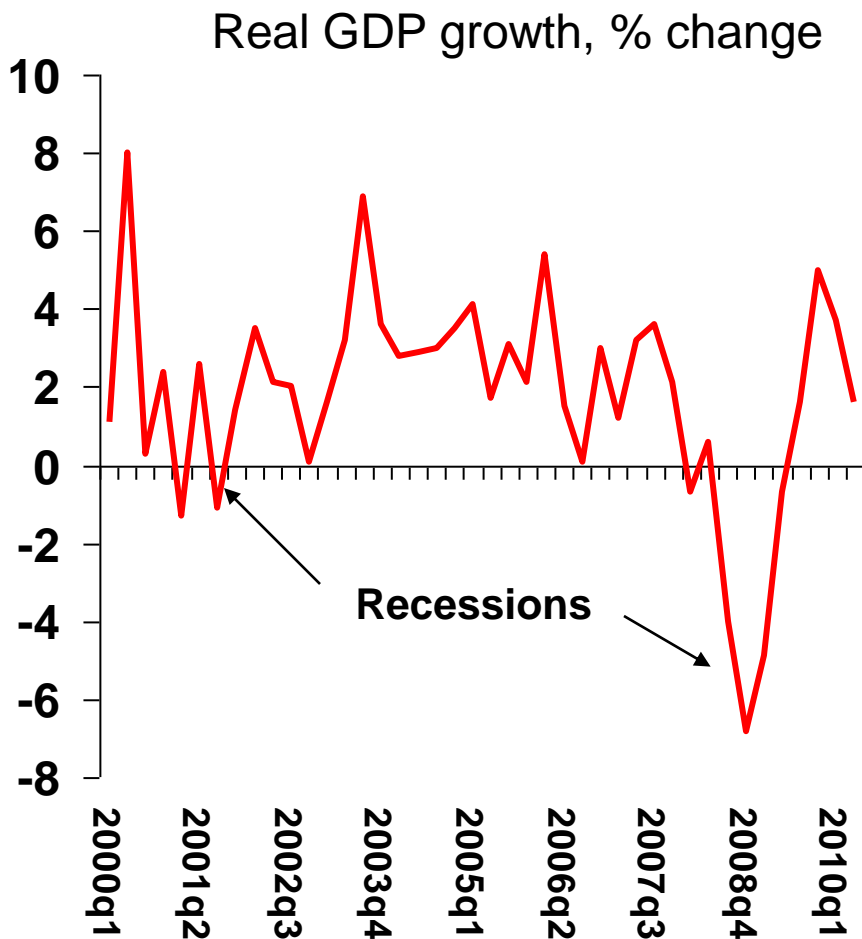
- Re-stocking contributed around 60% of growth on average in last 3 qtrs

But investment spending up

- Equipment and software rose 20%-plus in last two qtrs; most in four years

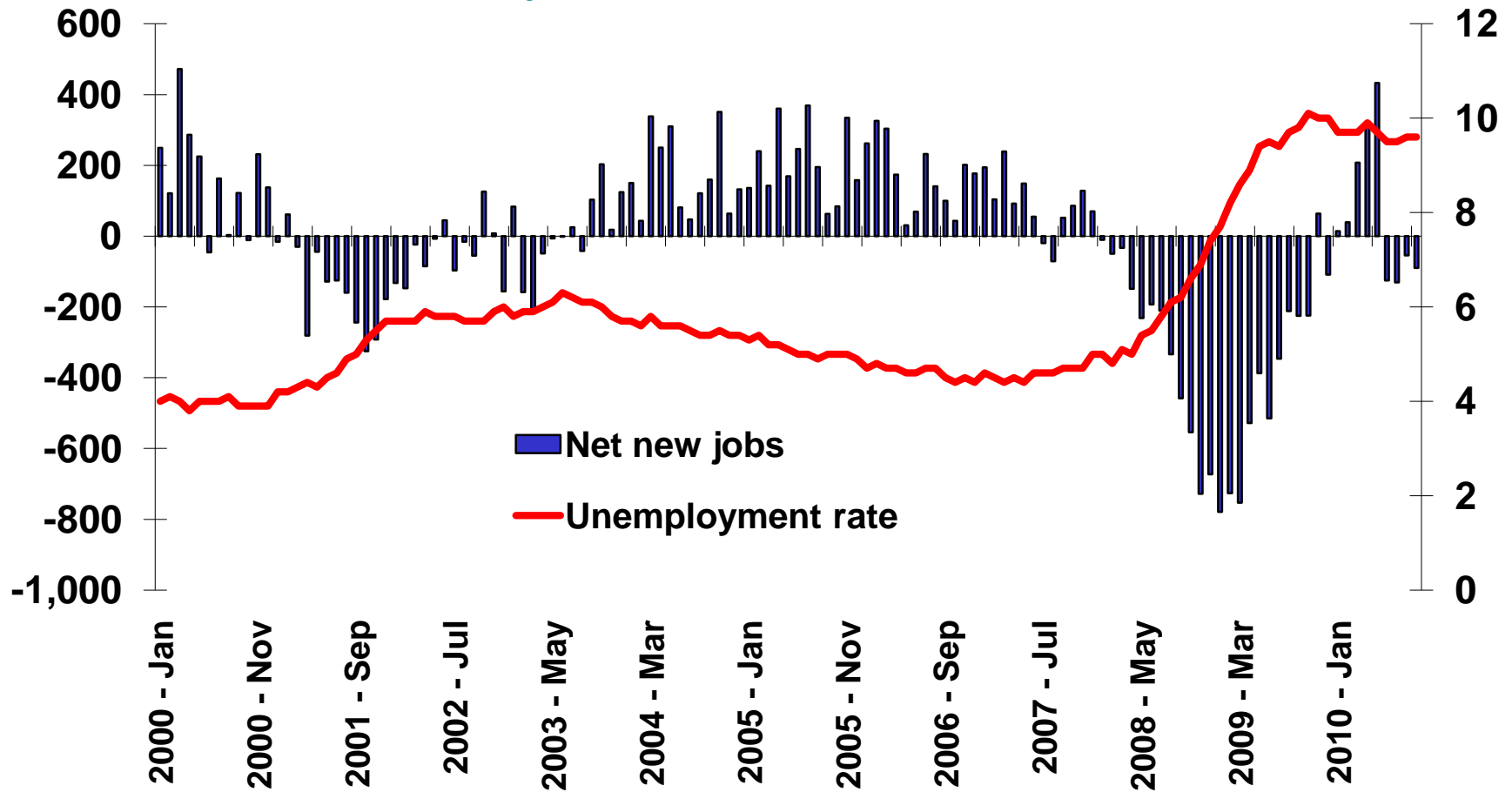
Consumer spending up

- Increased at a 2.6% annual pace in Q3; fastest pace since Q4 2006



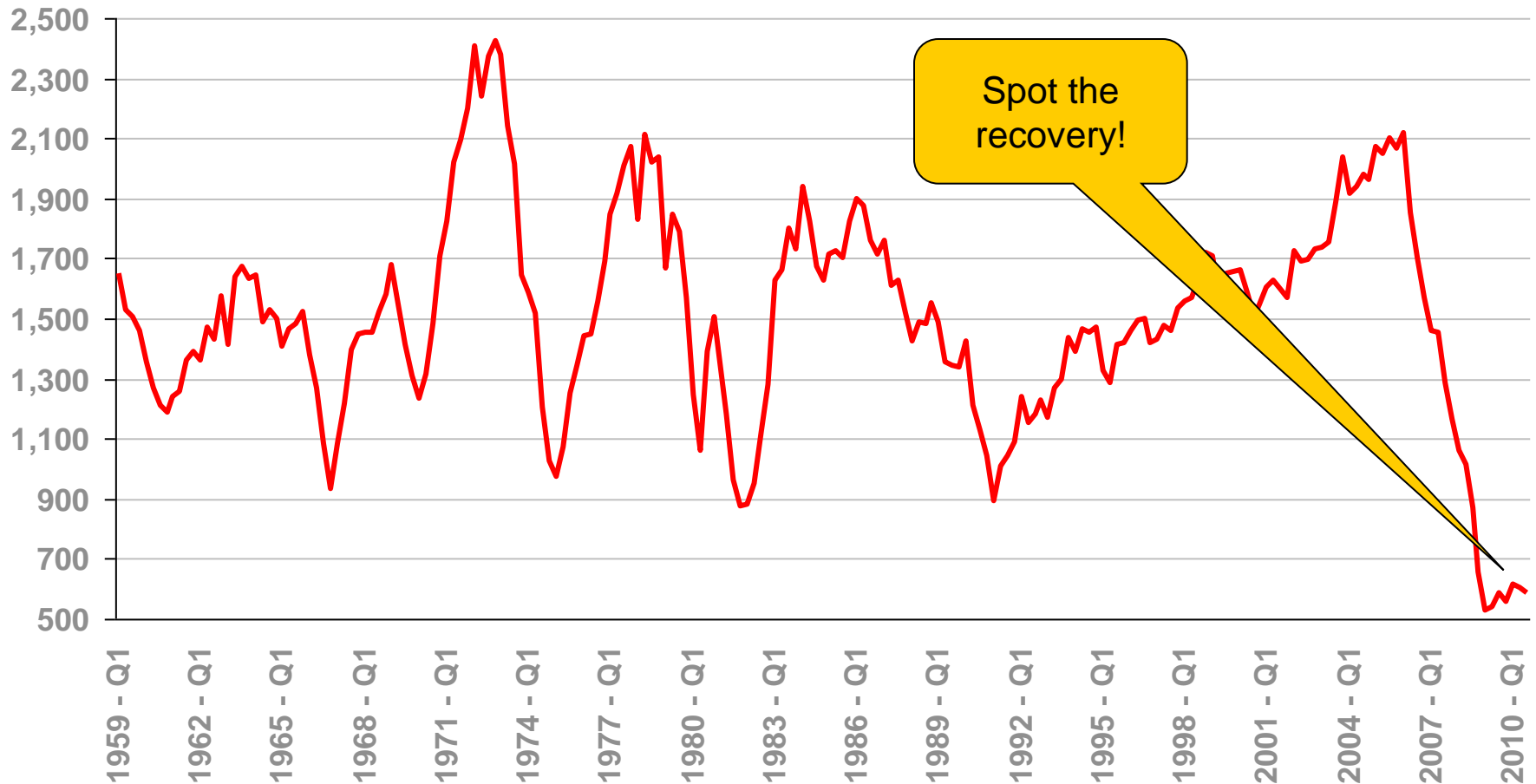
Jobs market remains tough

US jobs market



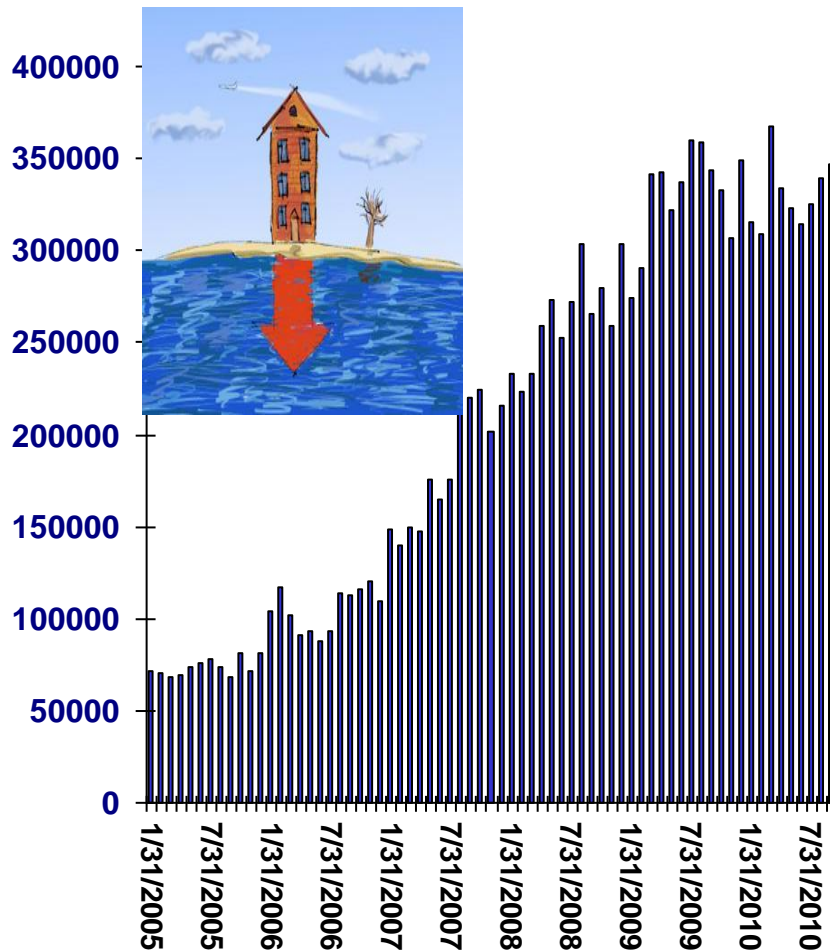
Jobs in '000s; unemployment, %.
Source: Bureau of Labor Statistics.

US: The housing market double dips



US: Housing starts, '000s, SAAR. Source: Bureau of the Census.

Home foreclosures still dire



1H 2010 foreclosures: 1,961,000, and more than 1m in Q3

Worse than last year

- 1 in 4 mortgage holders with negative equity
- Pent-up listings will keep homes coming to market, restraining prices

Yes, housing has stabilised

- But new home sales are moribund
- Prices are largely stagnant

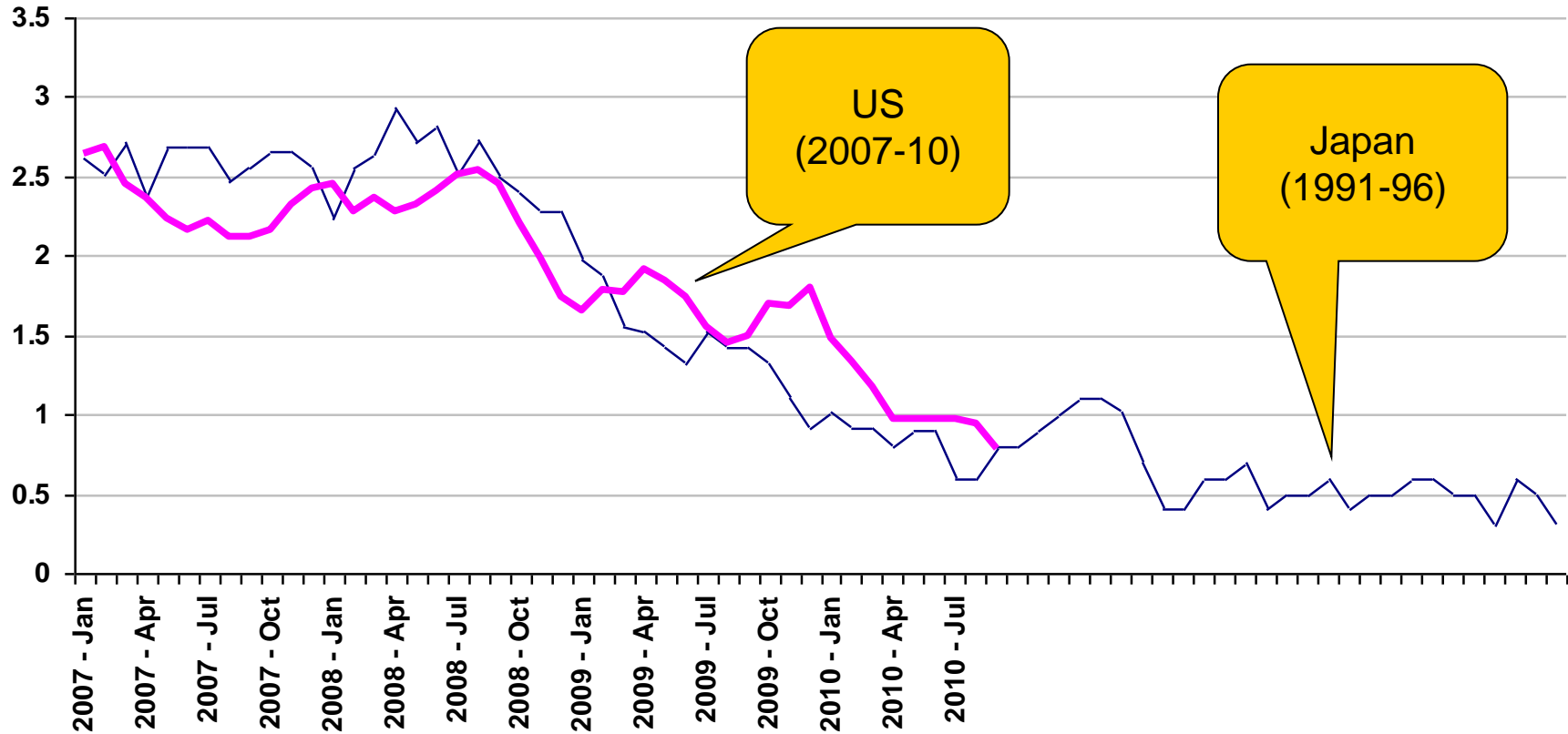
Nationally, 14+% of mortgages delinquent or foreclosed

“Delay and Pray”

Foreclosure rate: % change, year on year

Source: Realty Trac

US: Turning Japanese? The reason for QE



US and Japanese year-on-year consumer price inflation, excl food & energy.

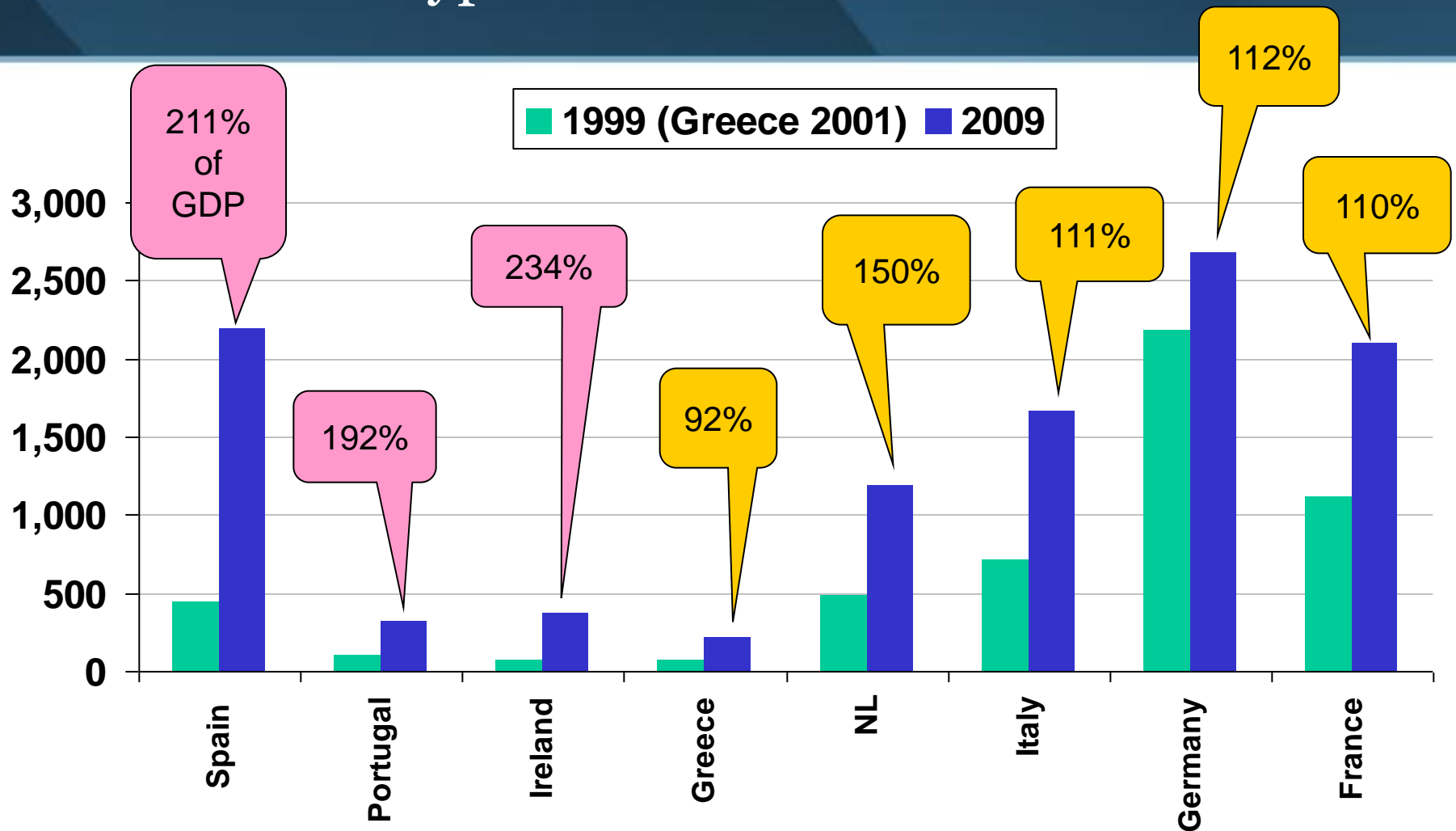
Source: Haver Analytics.

US: To QE or not to QE, that is the question

- Fed's dual mandate: price stability and employment
- Fear of **DEFLATION**, persistently high unemployment
- More QE
 - Hold down long-term interest rates
 - Boost asset prices
 - Revise credit demand/supply
 - Debase the currency
 - Competitive devaluations, currency wars
- Fed says it's not **MONETISING**
 - Not credible, given weak public finances ?
 - Monetary policy now an extension of fiscal policy'



Euro zone: A Sisyphean task?



Bank claims on private sector, € bn. (UK bank lending at 213% of GDP in 2009, £3trn.)

Sources: IMF, *International Financial Statistics*; EIU, CountryData.

Euro zone: Collapse? Don't even think about it

- **Wipe-out** of exiting country's banking sector, households default on euro debt
- **Collateral damage** to foreign banks, particularly in the euro zone, and companies and households (who would **lose euro denominated deposits** etc)
- **Contagion**—markets pick off weaker countries following exit, triggering further turmoil
- Euro collapse would trigger **depression** for the euro zone?
- Leaving the euro would be a **political decision, not an economic one**

Japan

Foreign demand supports growth

- Helped by fiscal leakage elsewhere

Yen a significant risk

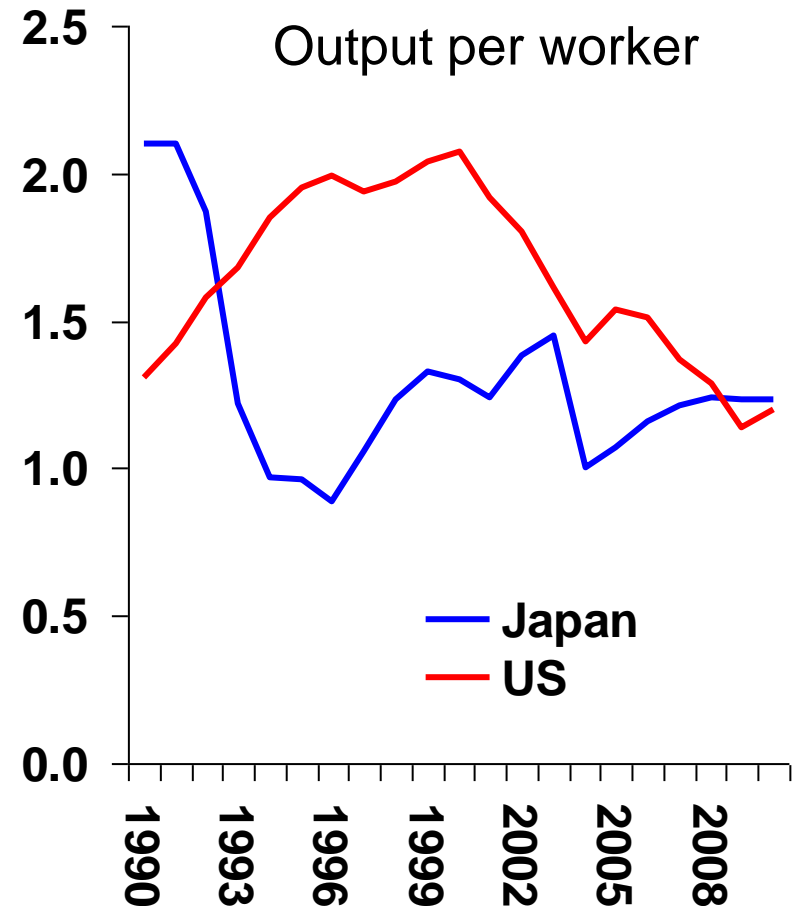
- But firms are profitable and can take some pain

Structural issues cloud picture

- Declining population
- Renewed deflation
- Fiscal woes

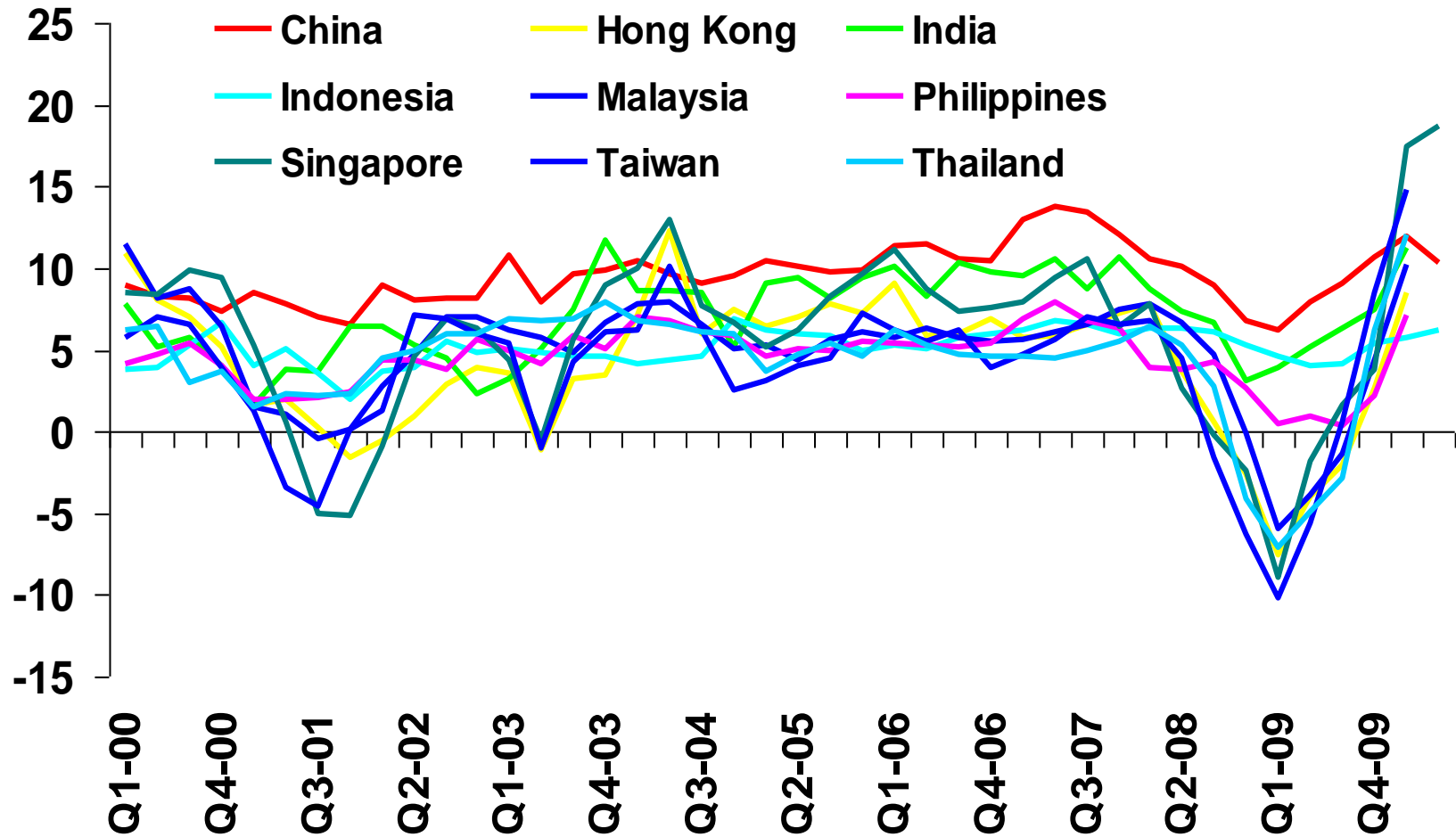
Cash cow country?

- Japan measures up on traditional measures of economic efficiency
 - But declining workforce means poor top-line performance



Emerging markets

Asia: Powering ahead



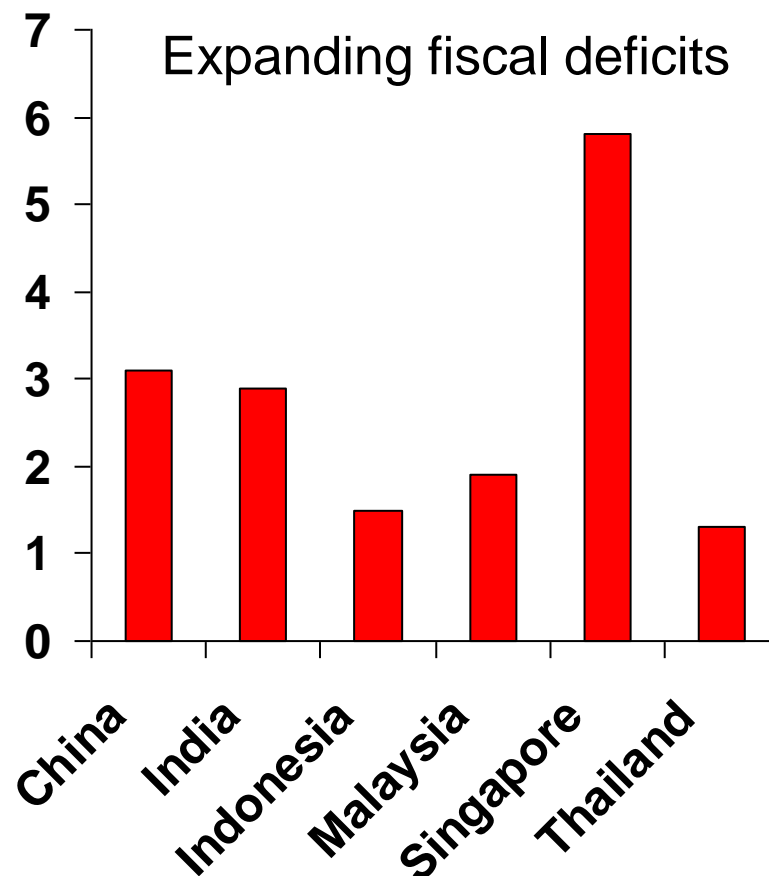
But Asian governments are in driver's seat

Robust recovery in train

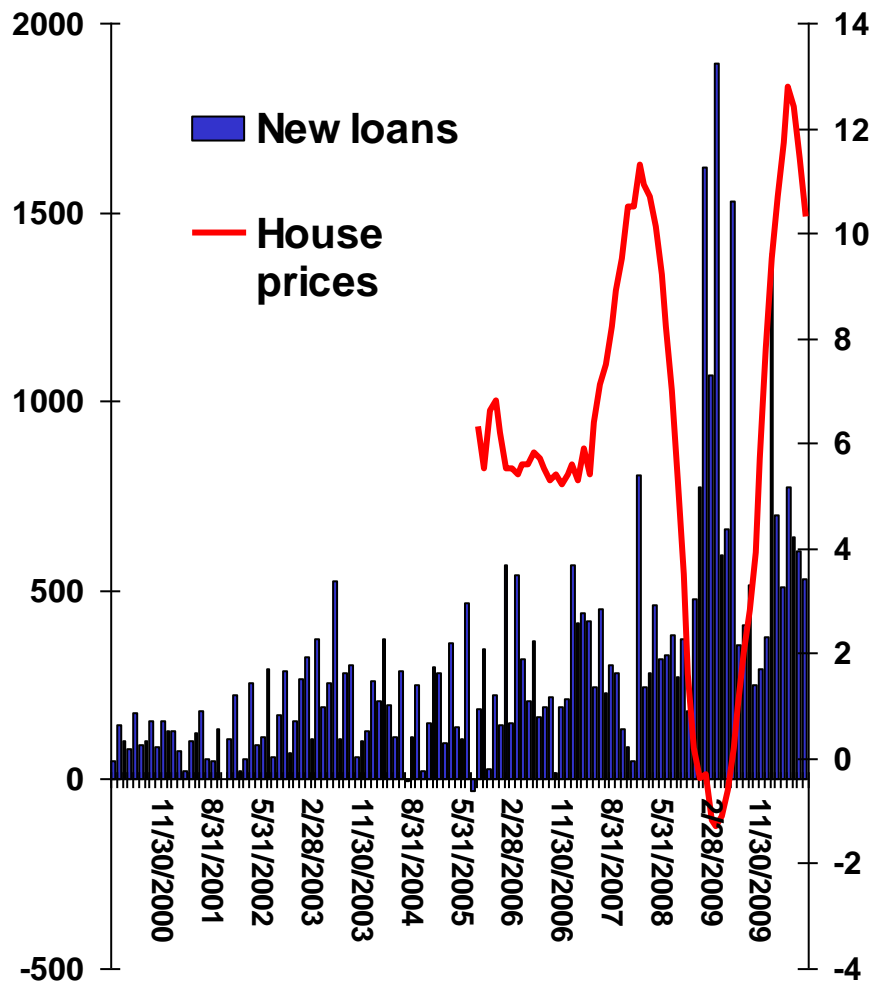
- Only a gentle slowdown next year

Policy stimulus is the key

- Domestic recovery stronger than usual
- China acting as a boost to rest of region
- Asian and trading partner stimulus accounts for half of GDP growth



Should we worry about China?



Why are investors worried?

- Inflationary asset price bubble
- US-style property crisis
- Government inspired crash

Government also worried about:

- Poor allocation of capital
- Inflation causing social ills

Government has reacted

- Have the brakes have gone on too hard?
 - Government can step in again if necessary
- Will all the lending of 2009 turn sour?

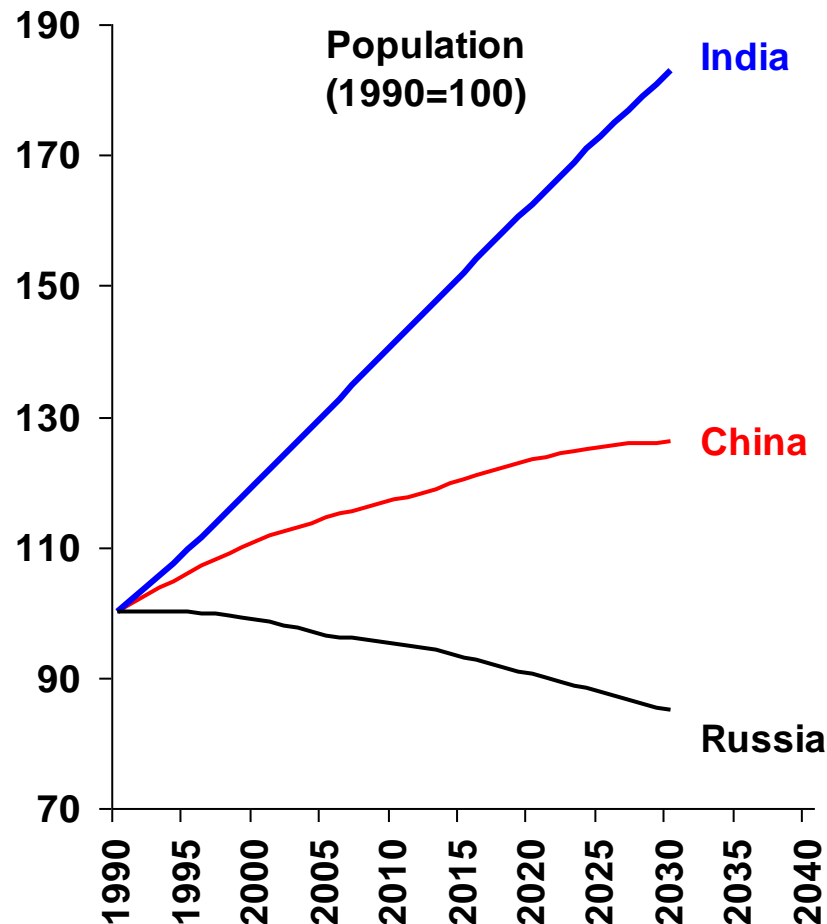
India: Strong prospects

Strong prospects

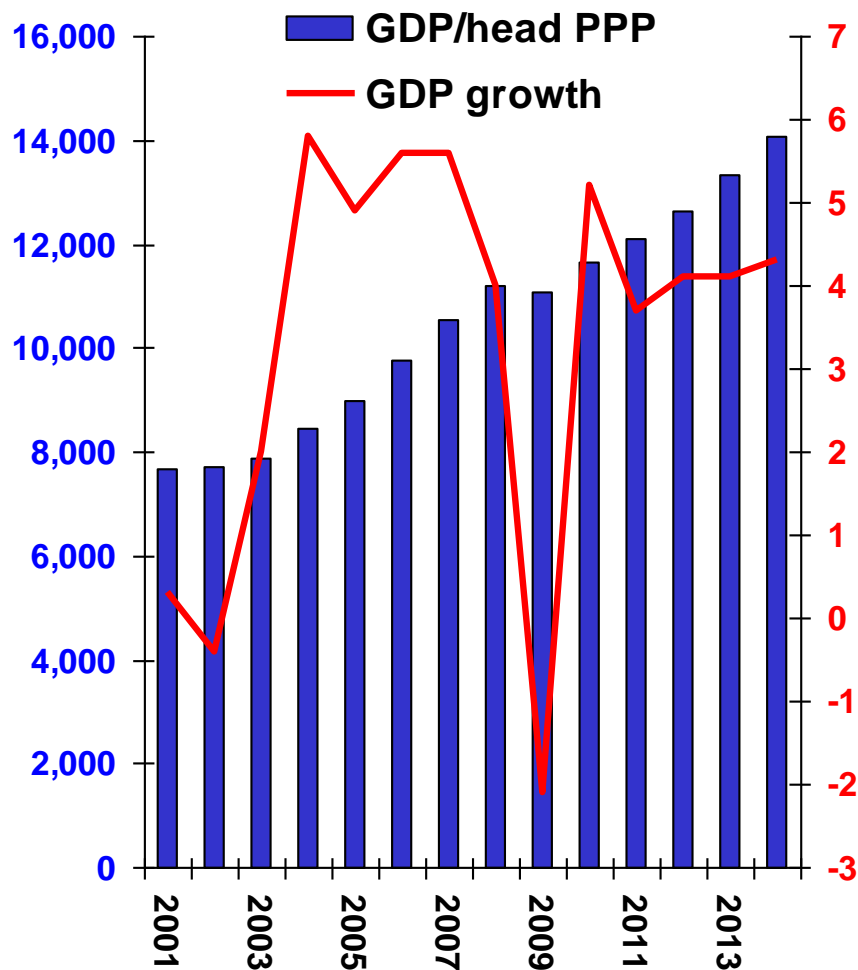
- Median age: 24 years
- India will have world's largest population in 2030s, overtaking China
- India will be growing more rapidly than China by 2018
- Labour-force growth to remain strong while China, others see decline

Challenges

- Absorbing labour force growth will be challenge in absence of sufficient education, structural change
- Fiscal consolidation is needed



Latin America has shown resilience



Region will grow by 4-5% in 2010

- Brazil: outsized performance

Countries linked to the US are doing better than expected

- Mexico will grow 4.7% this year

- Will feel the effects of US slowdown in 2011

Regionally, not back to boom years

- But better fiscal positions

- Flexible exchange rates

- Better trade performance

- Countries with Asian exposure further ahead

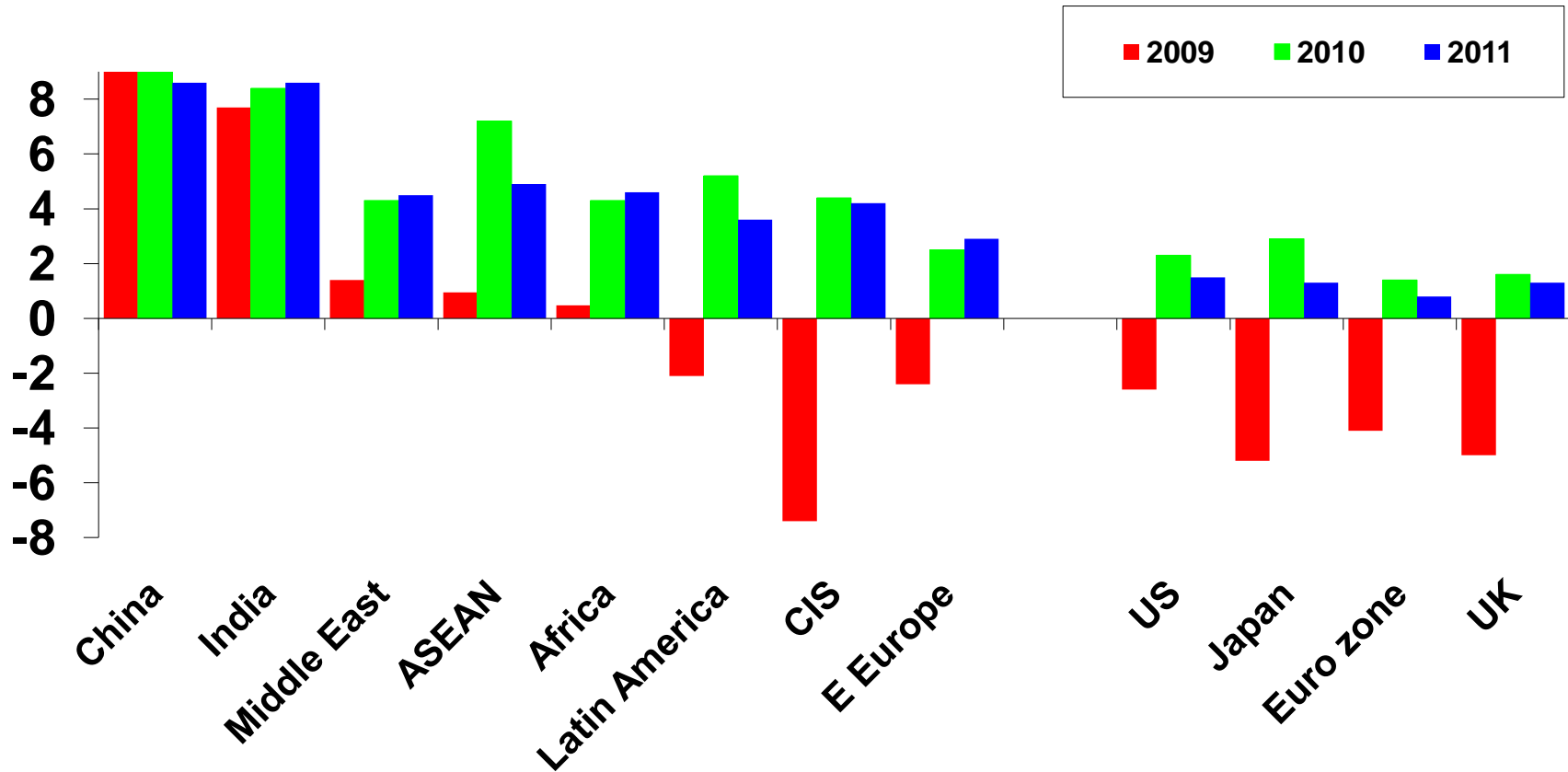
- Commodities help growth; China!

Real GDP growth, % change. GDP per head in US \$.

Source: Economist Intelligence Unit.

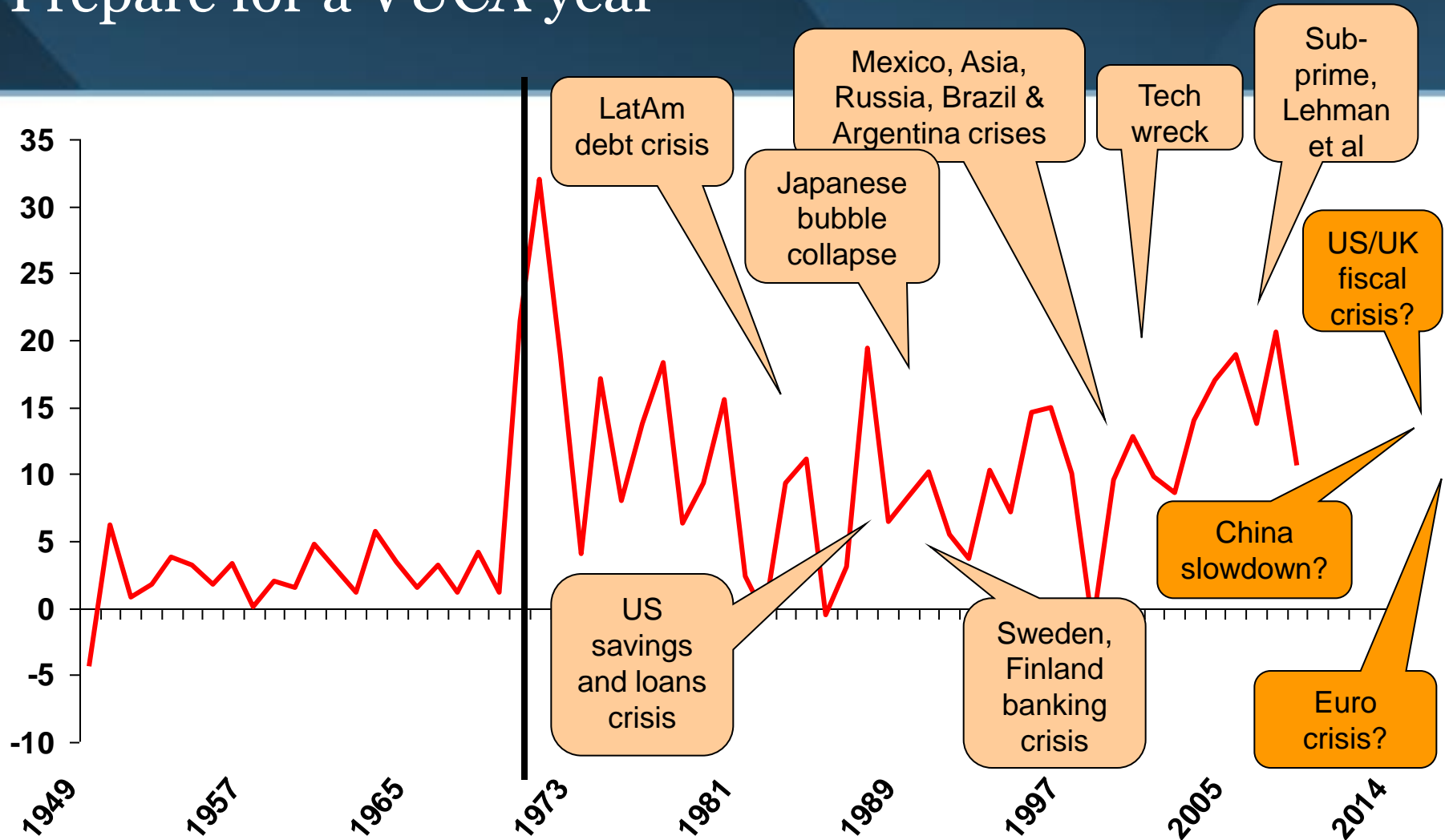
Medium to long-term perspectives

Where's the growth?



Real GDP growth; % change, year on year. ASEAN = Assoc of South East Asian Nations. CIS = Russia, Ukraine etc. Source: EIU, *CountryData*.

Prepare for a VUCA year



Global foreign-exchange reserves. % change, year on year. Sources: IMF; EIU.

Implications for business

Geographic refocusing

- Emerging markets will become the primary source of revenue and profit

Doing more with less

- Permanently leaner as low cost competition increases
 - Freeing up resources to become more agile

Balancing the short and long term

- Surviving today vs investment in a dramatically changing business

More Information?

Data and analysis from today's presentation were taken from the Economist Intelligence Unit's country analysis and forecasting services. For more information on these services and other EIU capabilities, including risk assessment, industry trends, and economic data, please contact:

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