

The global economy: Healing or still hurting?

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Key points for the global economy in 2013

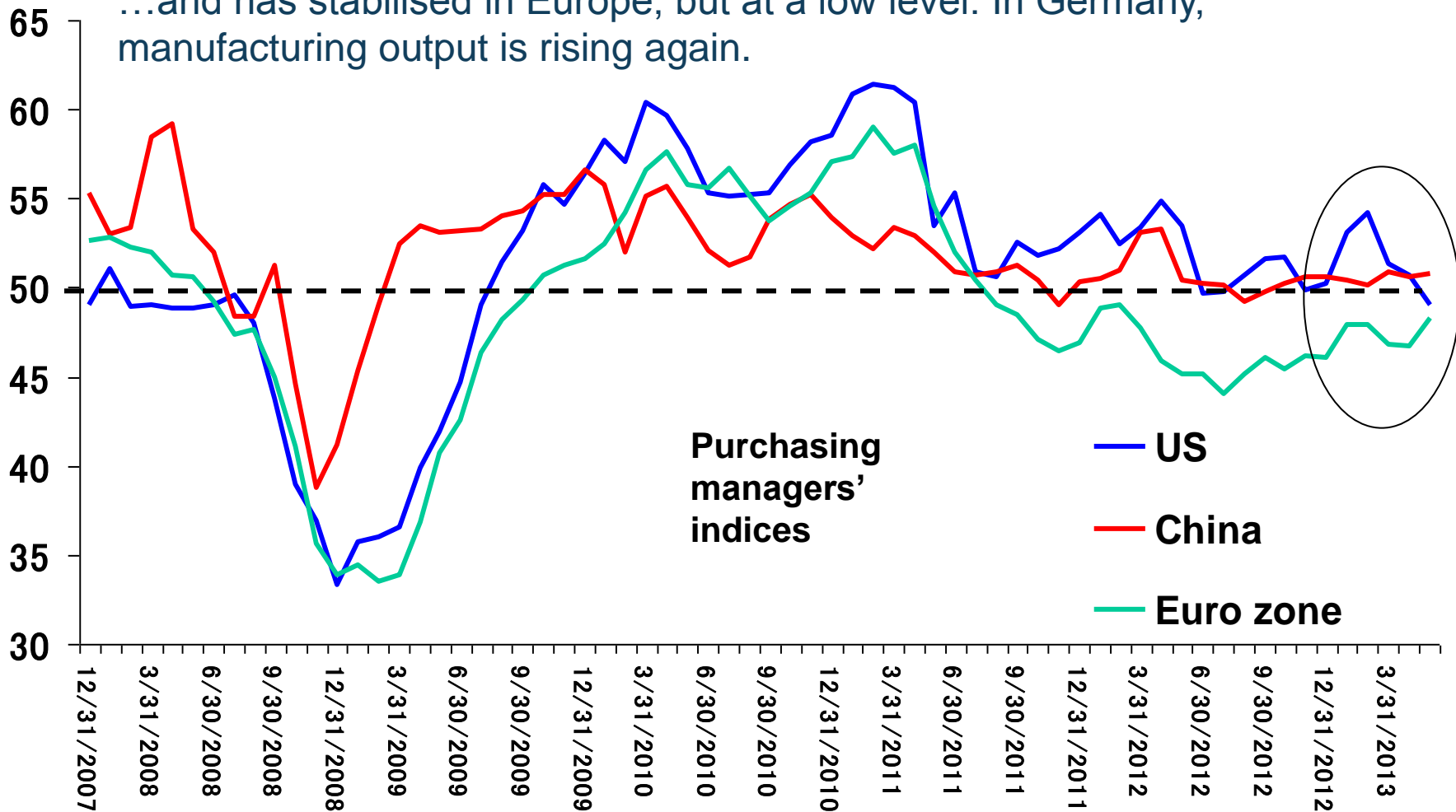
- After a series of setbacks, the global economy is slowly mending
 - US economy is strengthening; star performer
 - Jobs market is on a modest upswing
 - Housing is bouncing back
 - China is recovering from a slowdown
 - Boom years are over, but so is the slump
 - European debt crisis is stabilising...
 - ...but austerity is killing the economy
 - Euro zone remains big drag on global growth
 - Japan is showing signs of recovery under a new government
- Central banks are supporting the bounce-back in a big way
- Don't expect a brisk recovery, though; many risks remains
 - Debt levels still high; asset prices are volatile; tensions in Middle East, China, Korea



Growth and the funds to fuel it

Manufacturing is edging higher in US and China...

...and has stabilised in Europe, but at a low level. In Germany, manufacturing output is rising again.



Diffusion index; 50 is dividing line between expansion and contraction. Source: Bloomberg

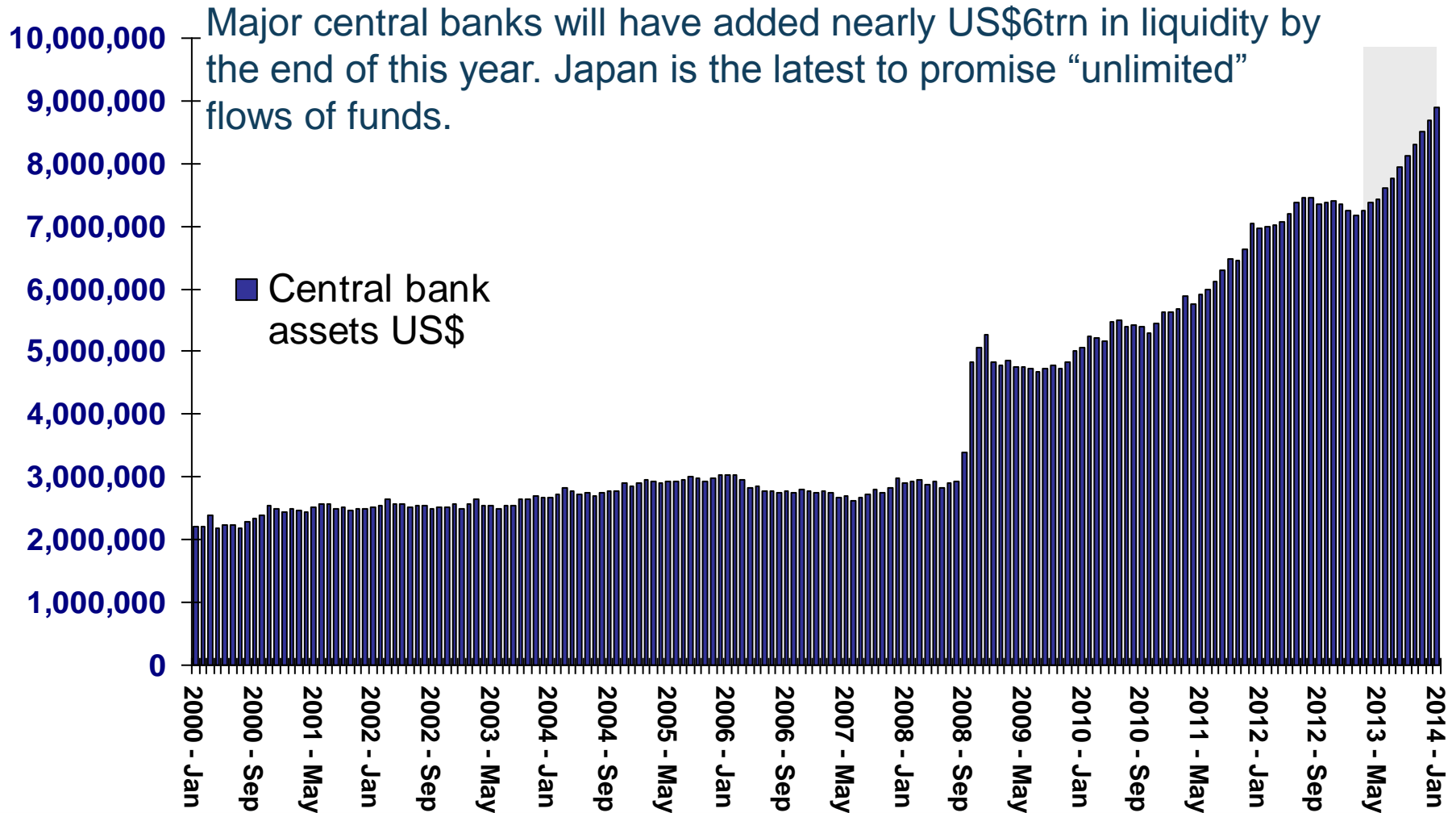
The US stock market has been on a roll...

...and will continue to move higher as the recovery deepens. But it will fall back as the Fed comes closer to tightening policy later in the year.



US stock market has risen more than 20% in the last six months.

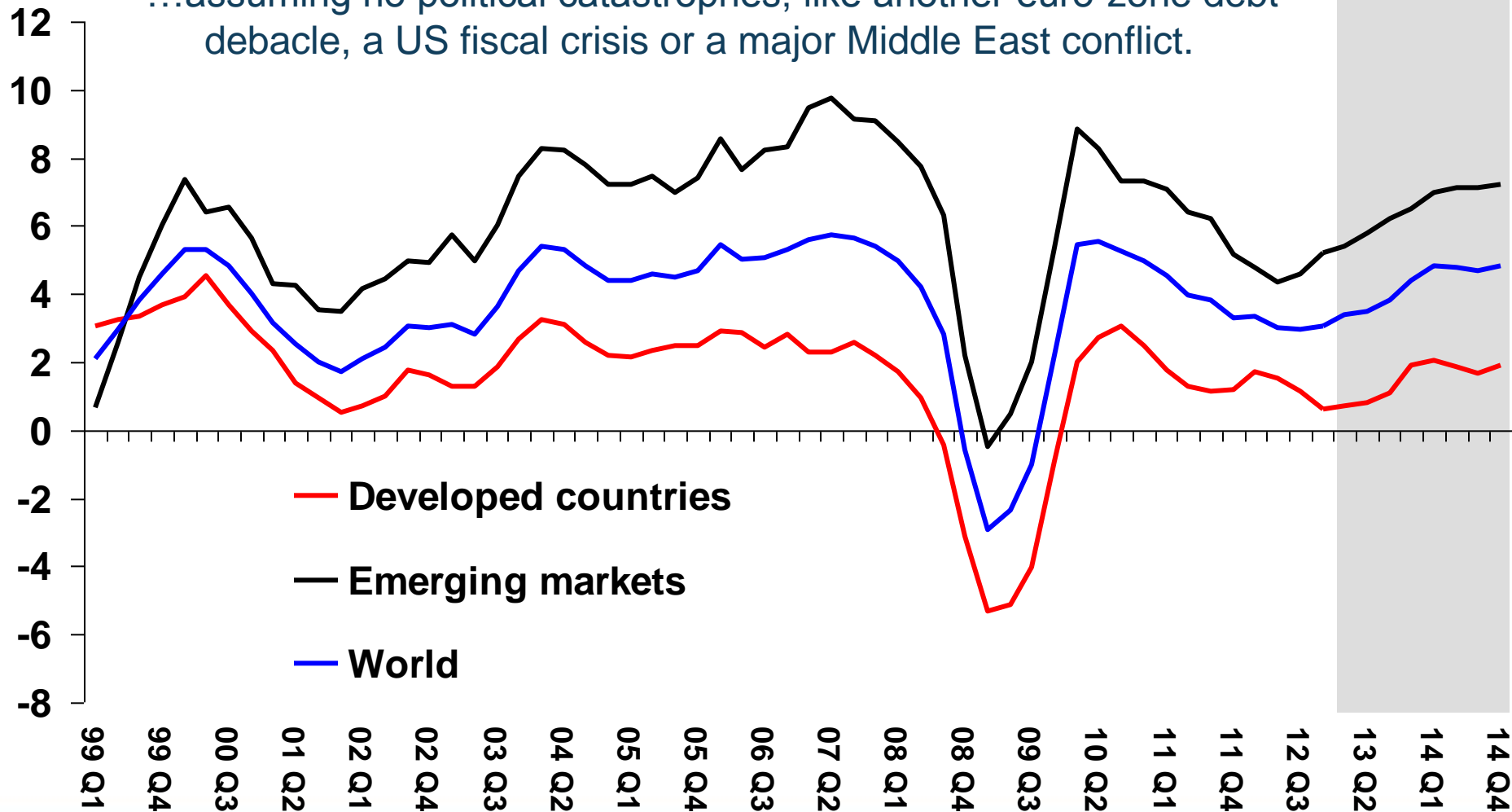
Central banks: When in doubt, print more money



Total central bank assets, US\$m: US Fed, ECB, BOE, BOJ. Source: National central banks, Haver Analytics

Outlook? Somewhat better results from later in 2013...

...assuming no political catastrophes, like another euro-zone debt debacle, a US fiscal crisis or a major Middle East conflict.



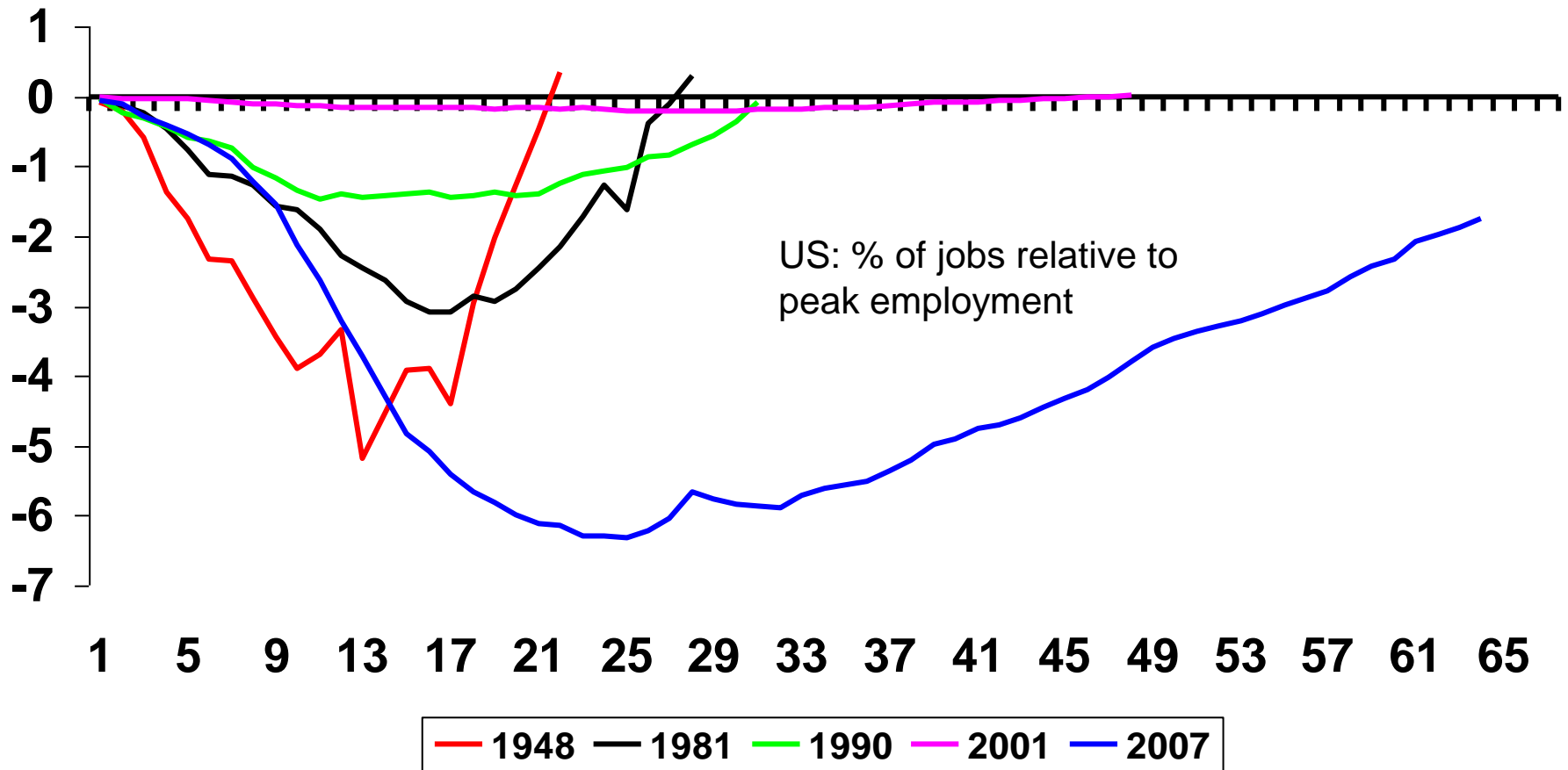
US and developed economies

US: Job growth is steadily improving...

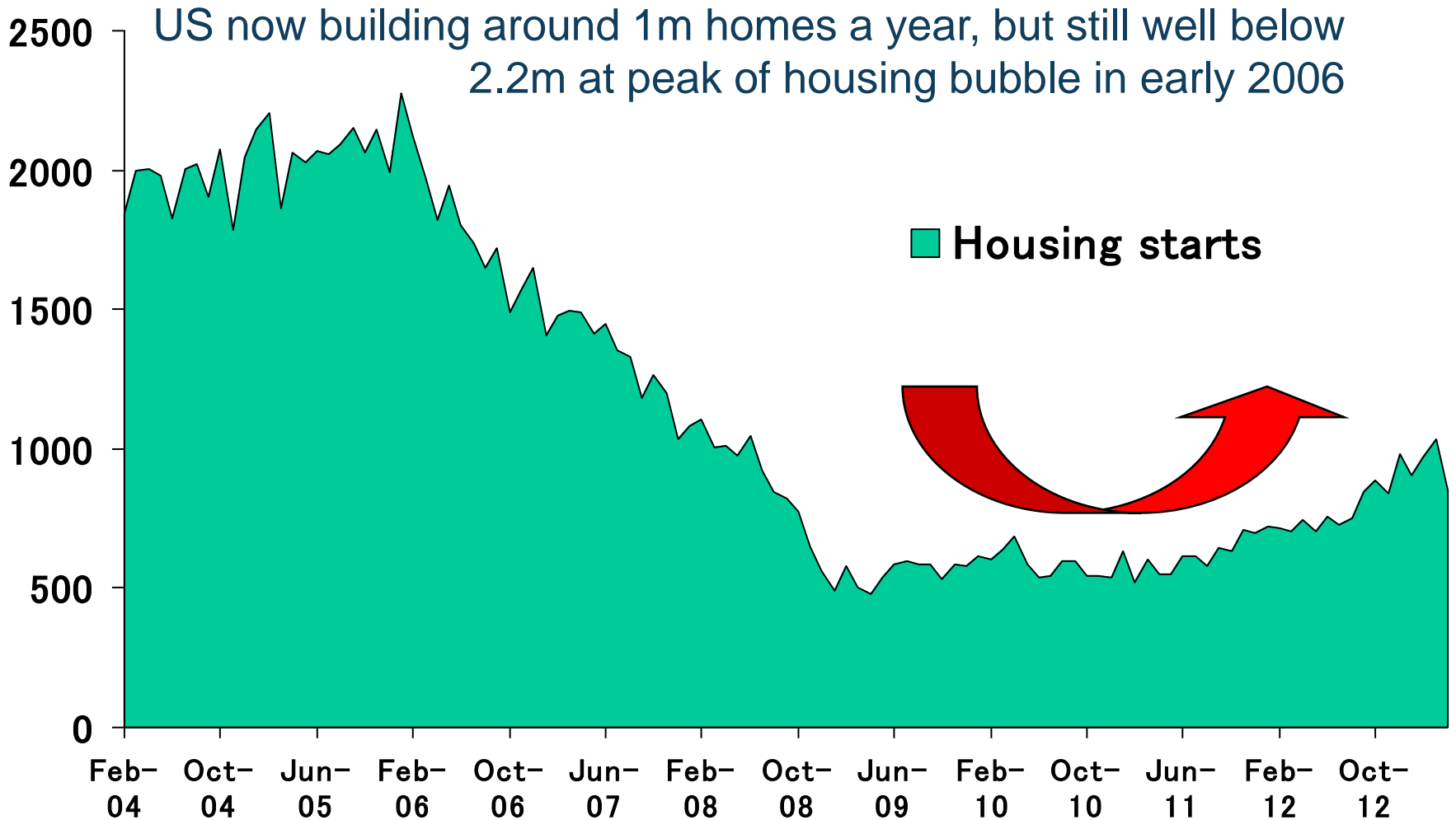
...and the unemployment rate has fallen to 7.6%, though that's still very high by historical standards.



Post-recession US jobs? Very long journey



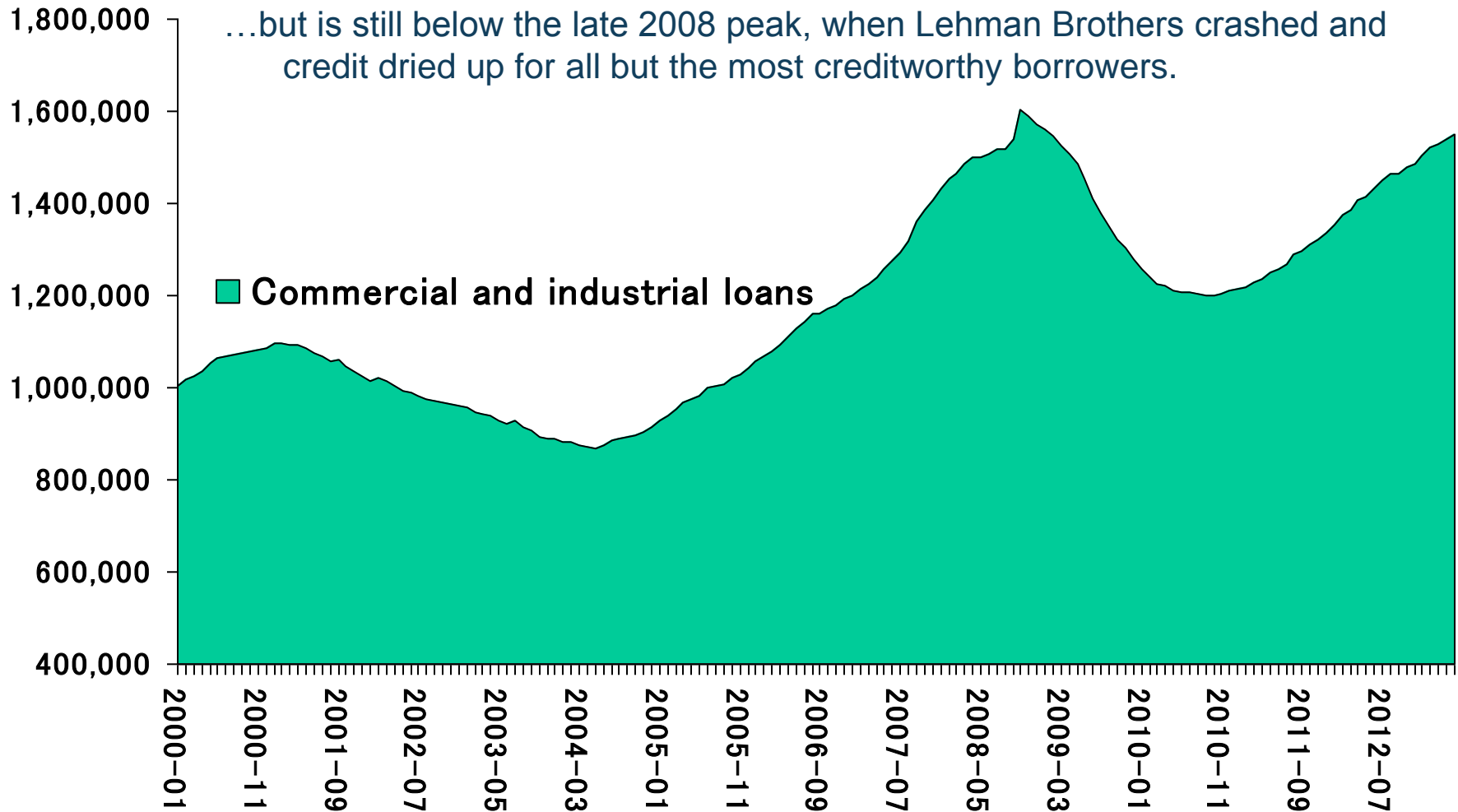
A stronger housing market is boosting sentiment



New home construction, units, monthly at annual rate.
Source: US Census Bureau.

Lending to businesses has been rising for three years...

...but is still below the late 2008 peak, when Lehman Brothers crashed and credit dried up for all but the most creditworthy borrowers.

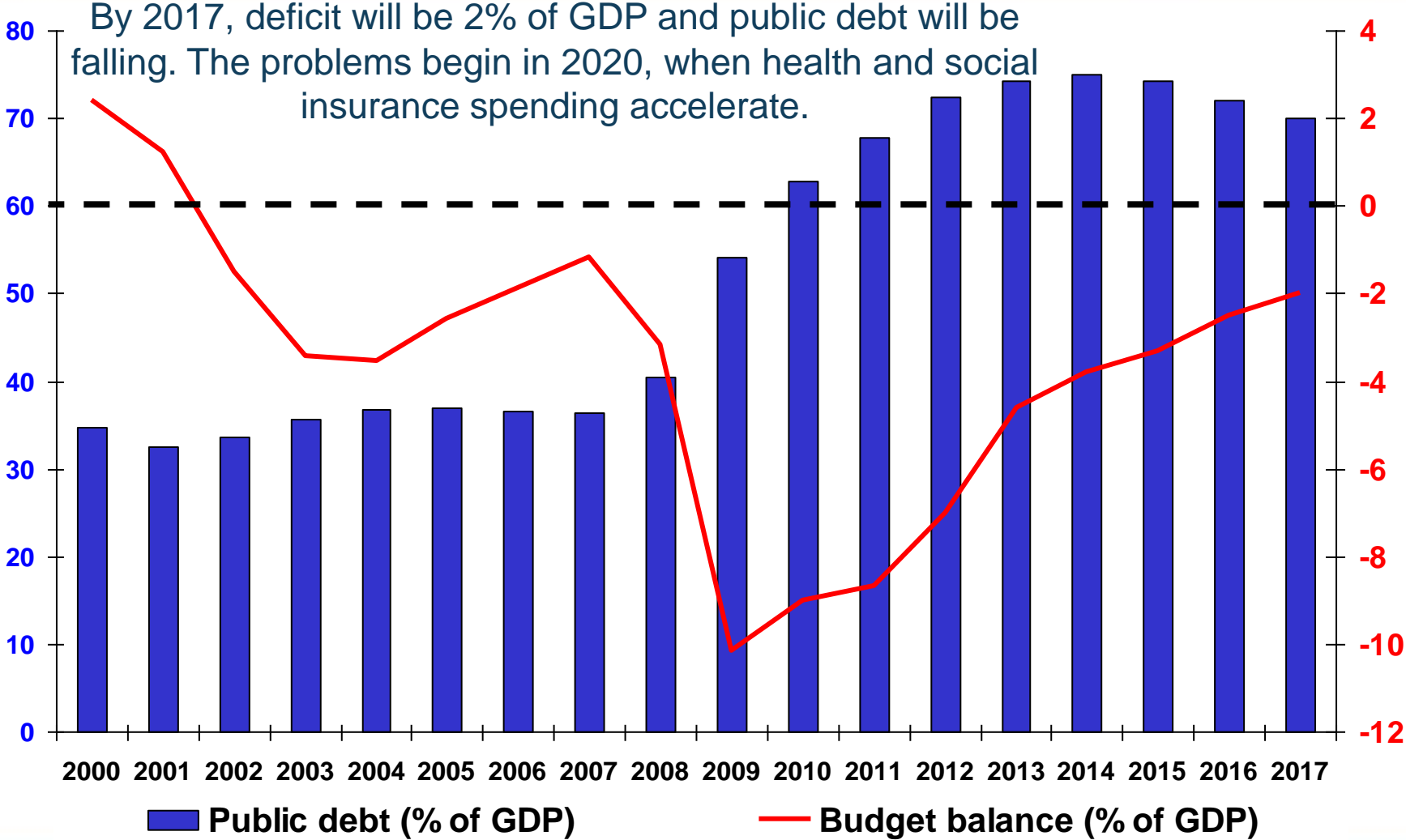


Corporate profits: Holding at the highest in 50 years

US corporate profits have rebounded—companies have the means to resume hiring, but aren't sure of demand, taxes, regulation, financial stability.

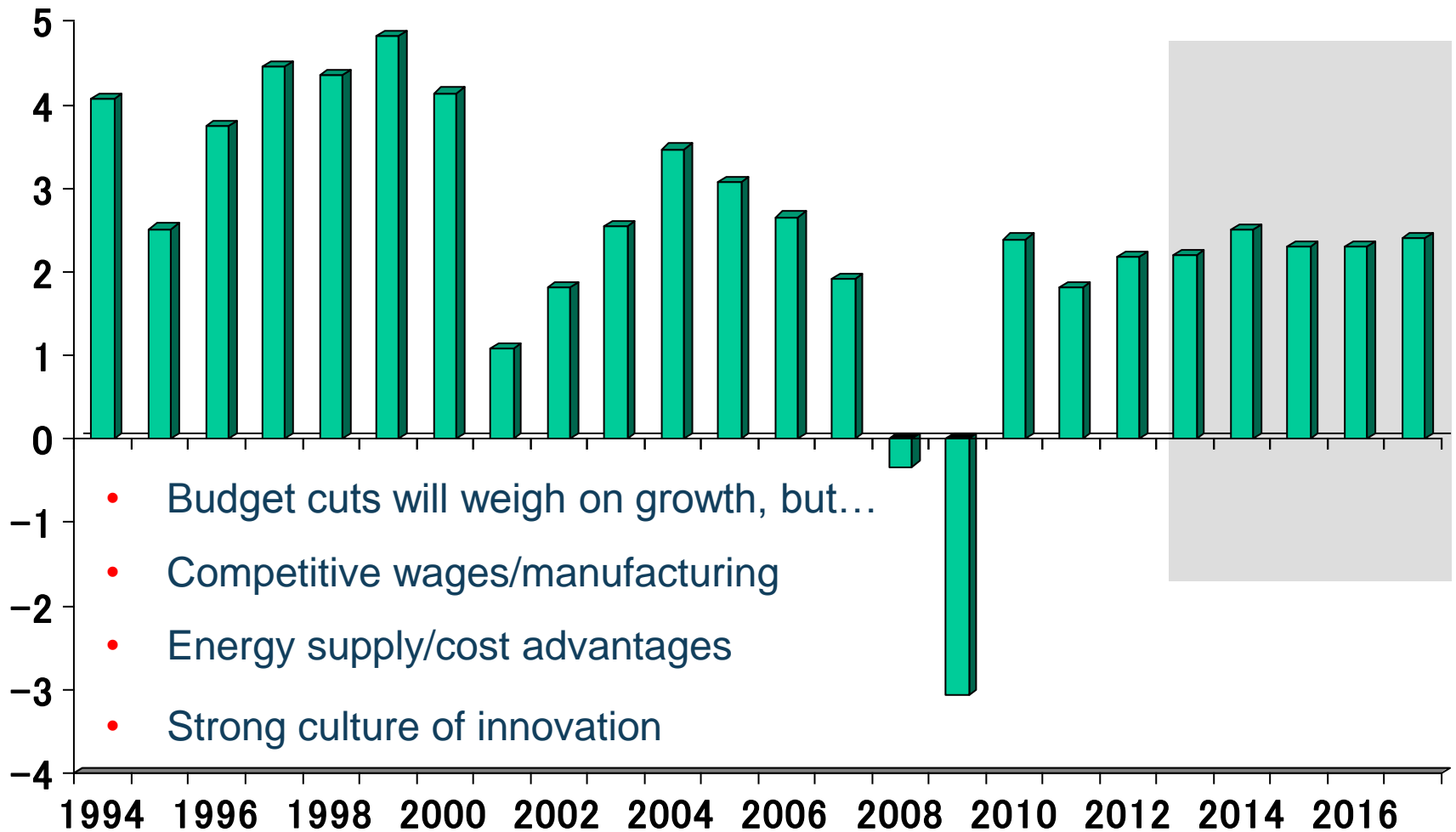


Surprise!! No short-term deficit/debt crisis in the US

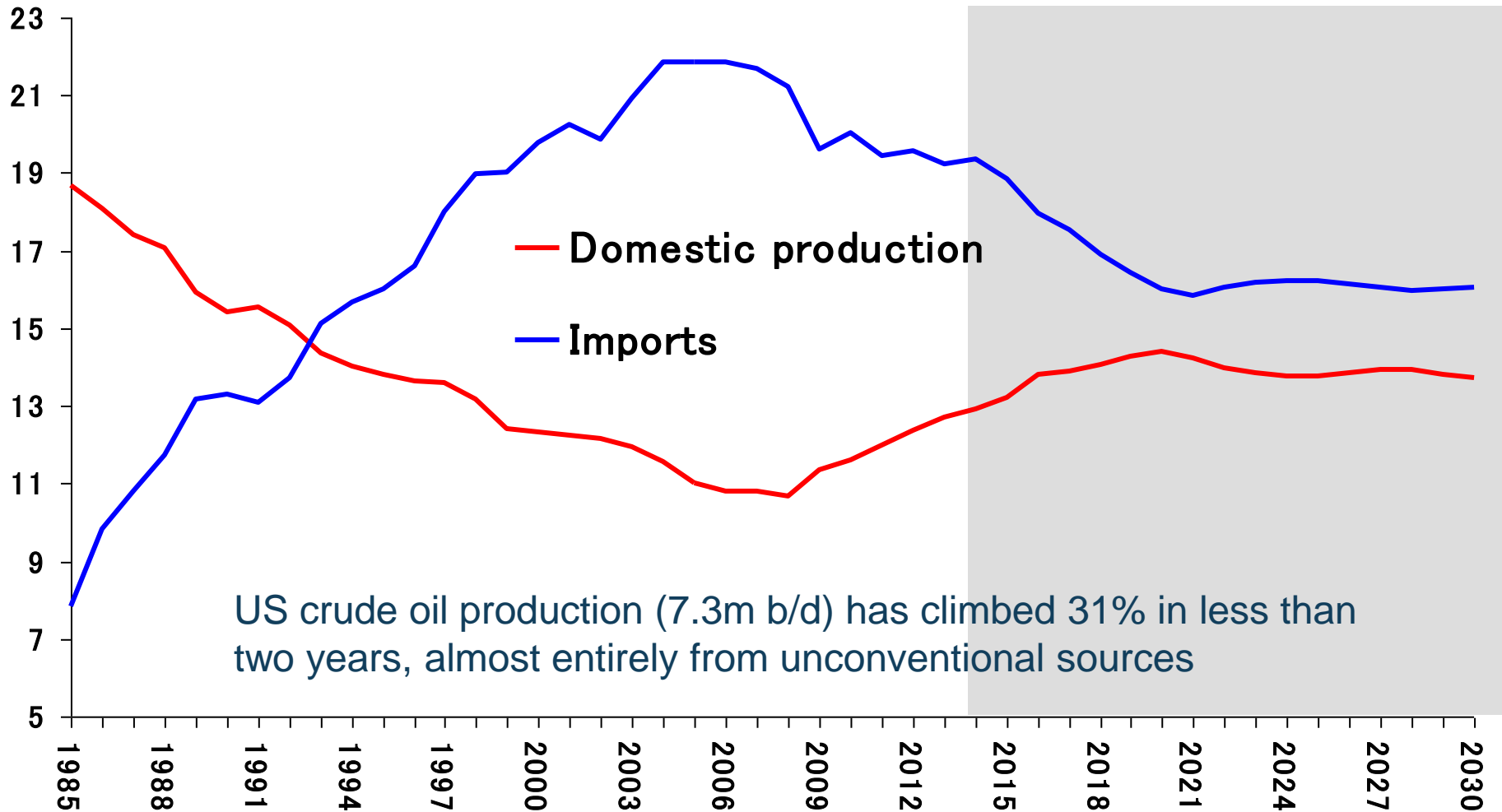


Source: US Department of the Treasury

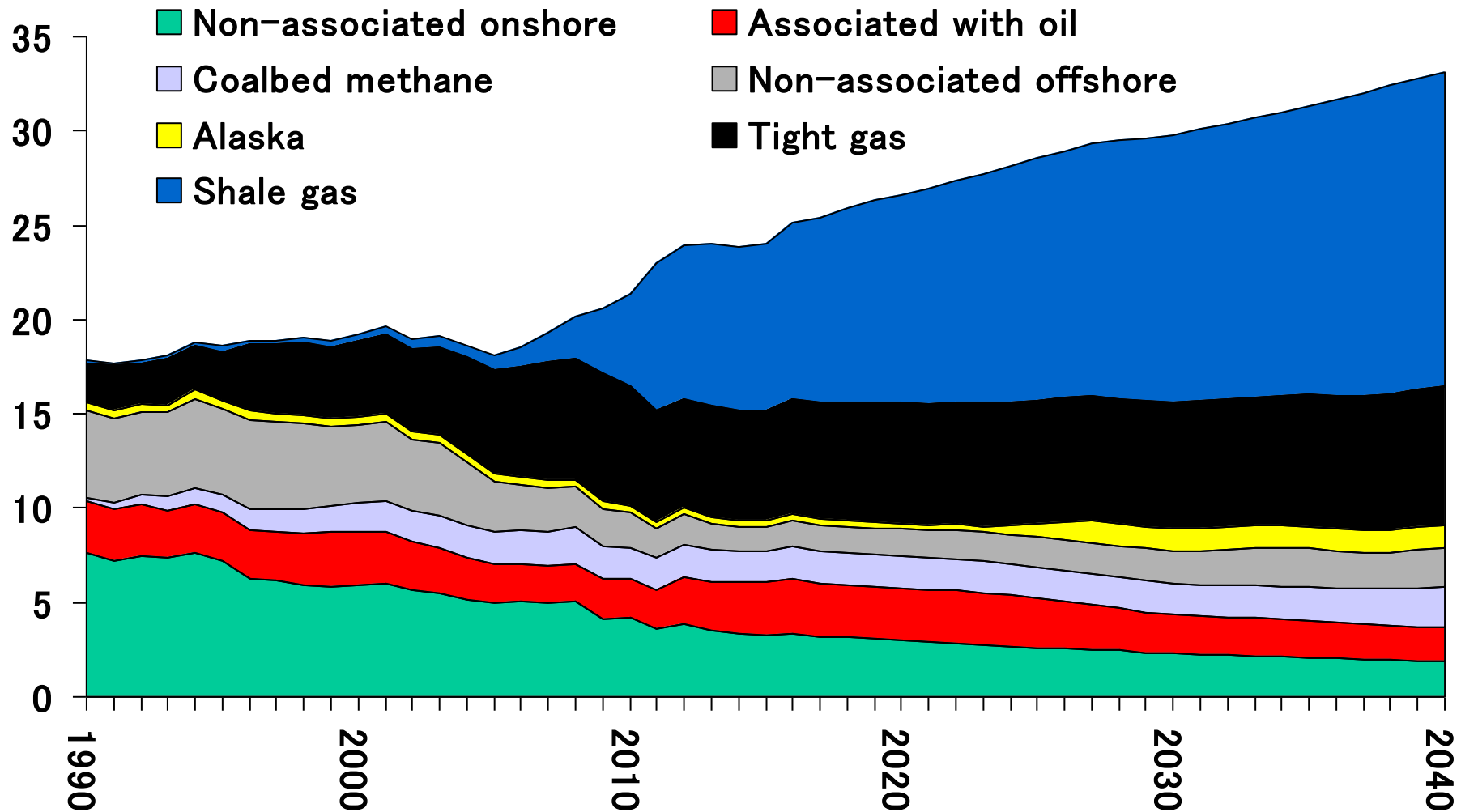
US forecast: Steady growth; risks to the upside in 2013



US: Less imported oil, more domestic production



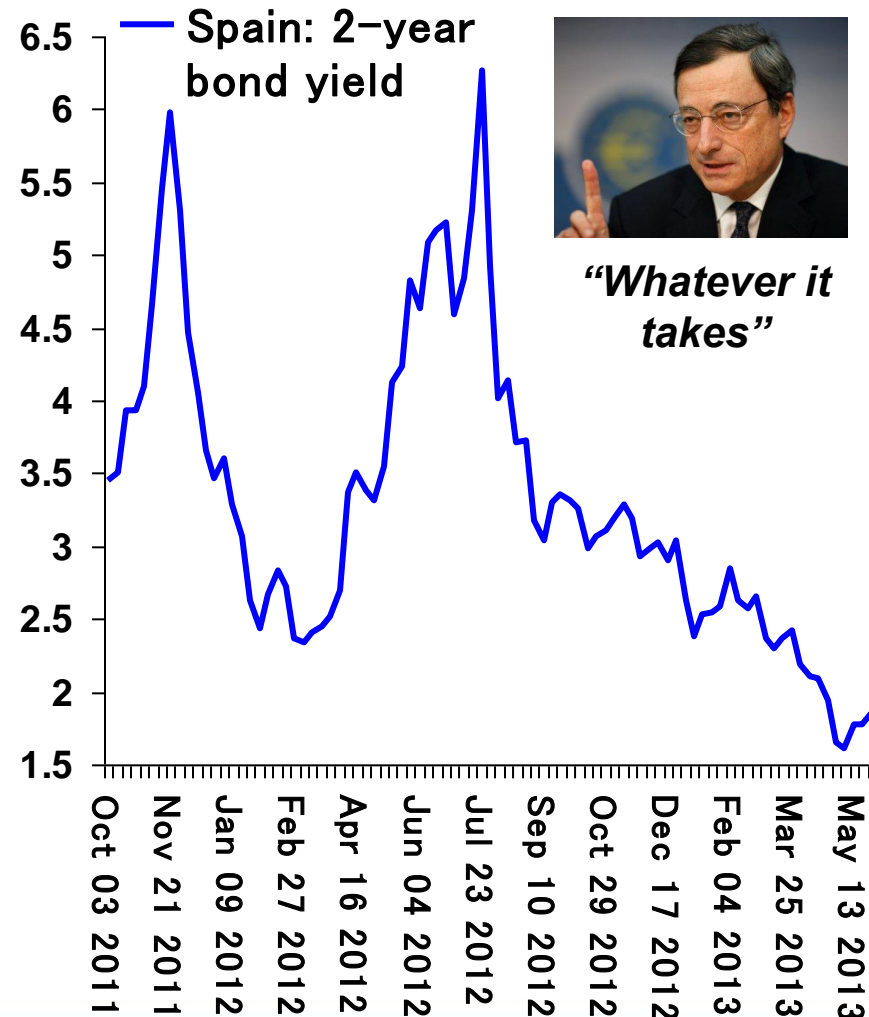
US is also enjoying a boom in shale gas production



Source: US Energy Information Administration, June 2012

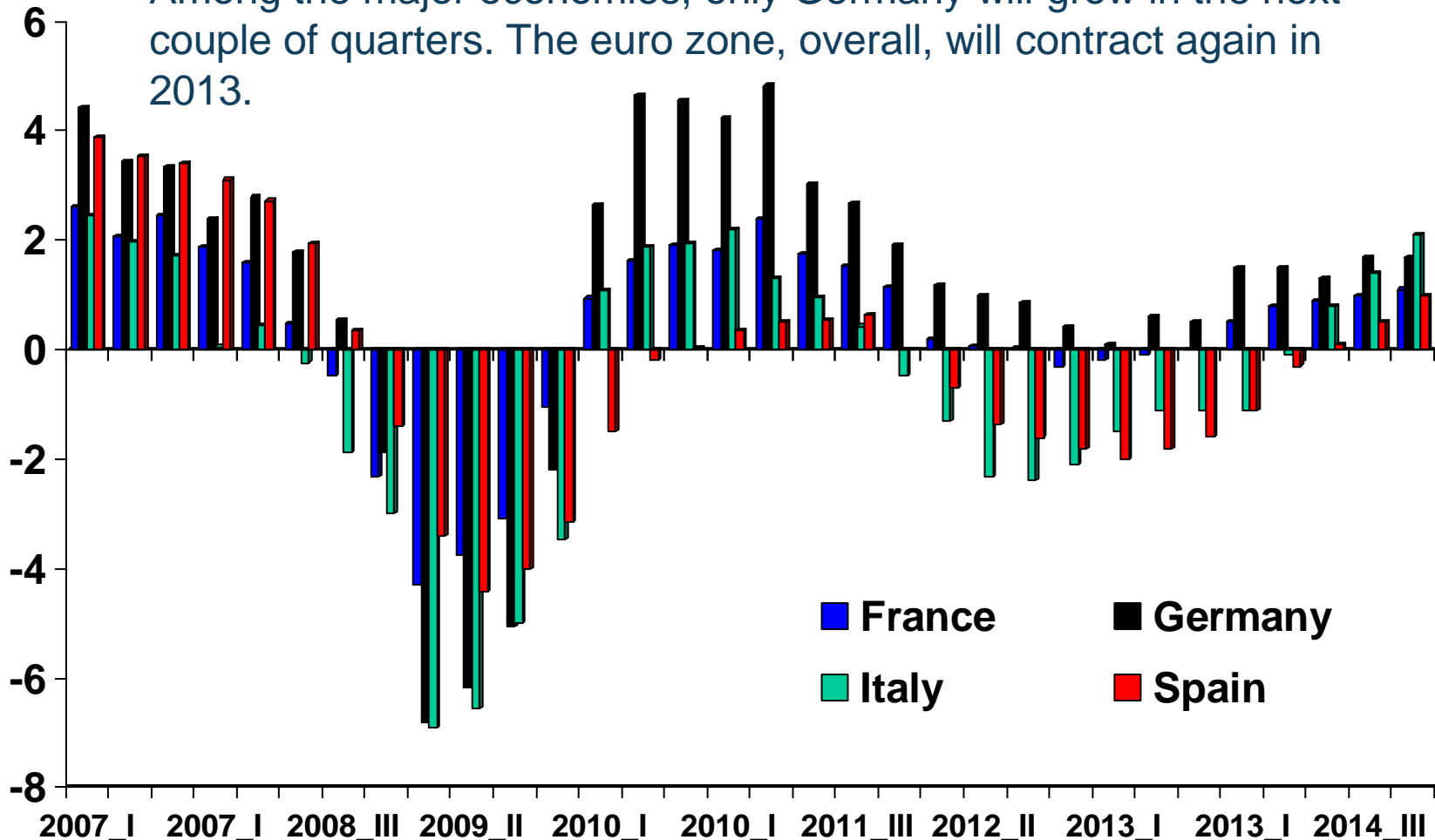
Euro zone crisis: Worst seems to be over

- Three related but distinct issues
- Underlying levels of government debt
 - Still very high for many countries, especially on the periphery; years to resolve
- Fiscal austerity; ongoing recession
 - Necessary, up to a point, to reduce debt
 - Will keep growth at 1% or less for some time
- Financial catastrophe and break-up?
 - Less probability of market panic
 - Euro zone break-up less likely short term
 - Misjudgment risk (Cyprus) remains



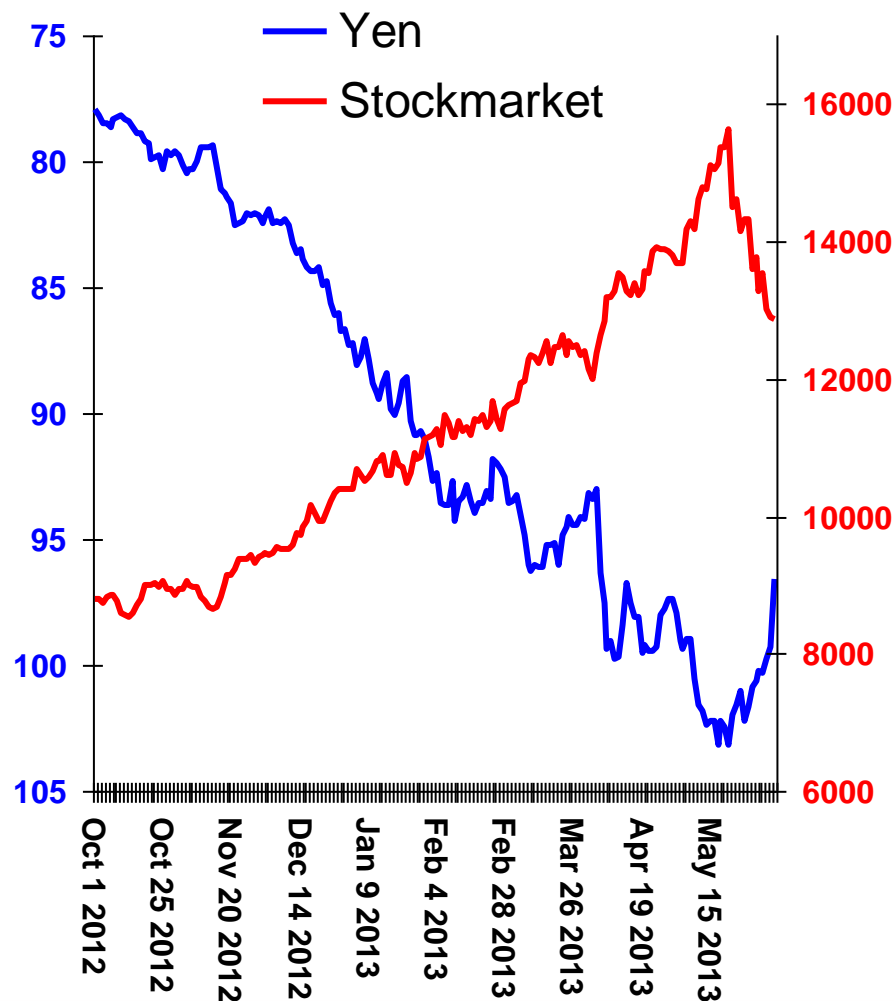
EU: Catastrophe less likely, but growth is awful

Among the major economies, only Germany will grow in the next couple of quarters. The euro zone, overall, will contract again in 2013.



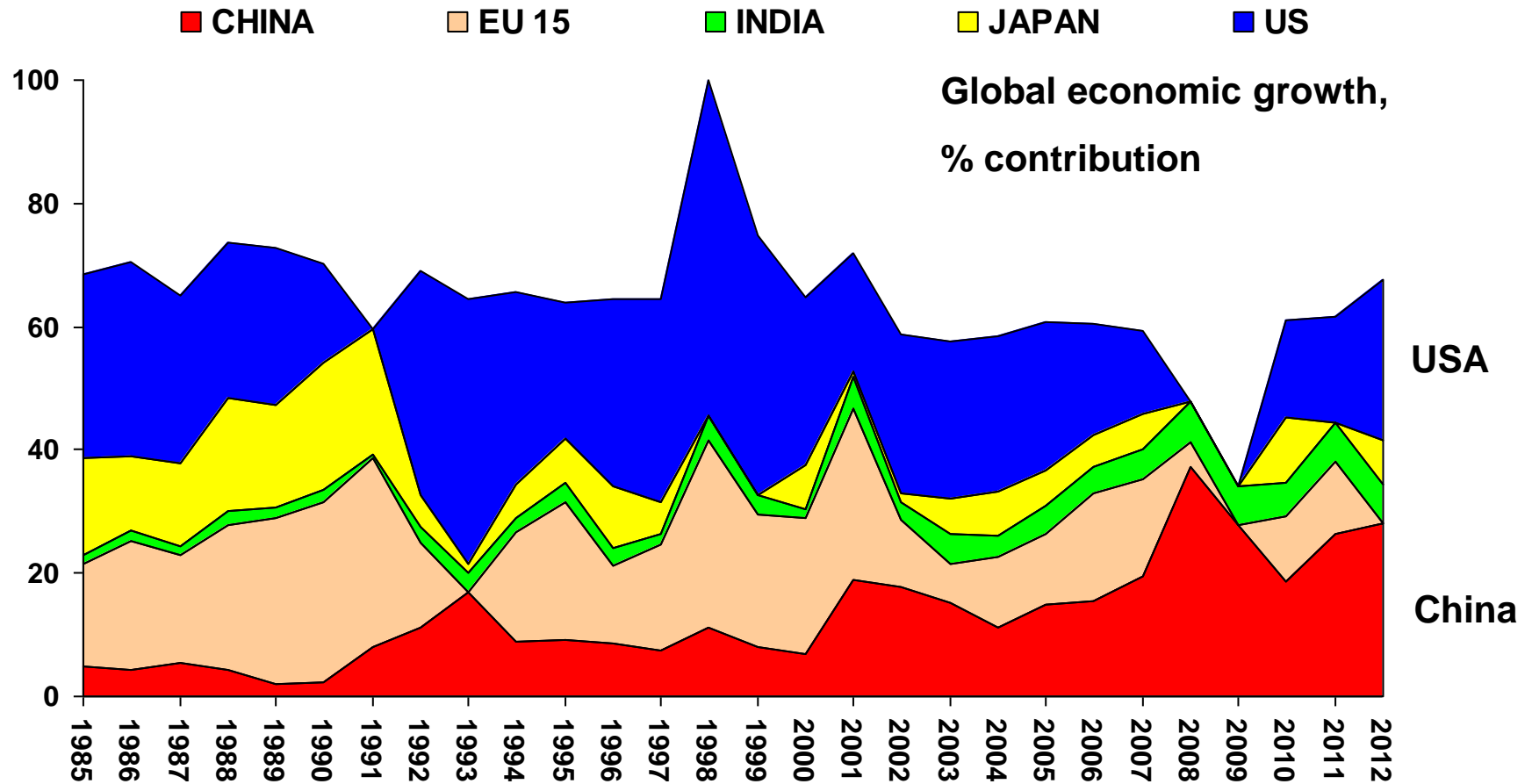
Japan: Putting it all on the line

- Abe has introduced bold steps to reverse two decades of deflation
- “Abenomics”—fiscal stimulus, structural reforms and, most of all, central bank money-printing
 - Doubling the monetary base
 - Twice as much easing as the US Fed, as share of GDP
- Initial results? Strong Q1 GDP
 - Stocks up, yen down
 - But deflation remains a concern...
 - ...and investors worry if reforms will stick, leading to a retreat



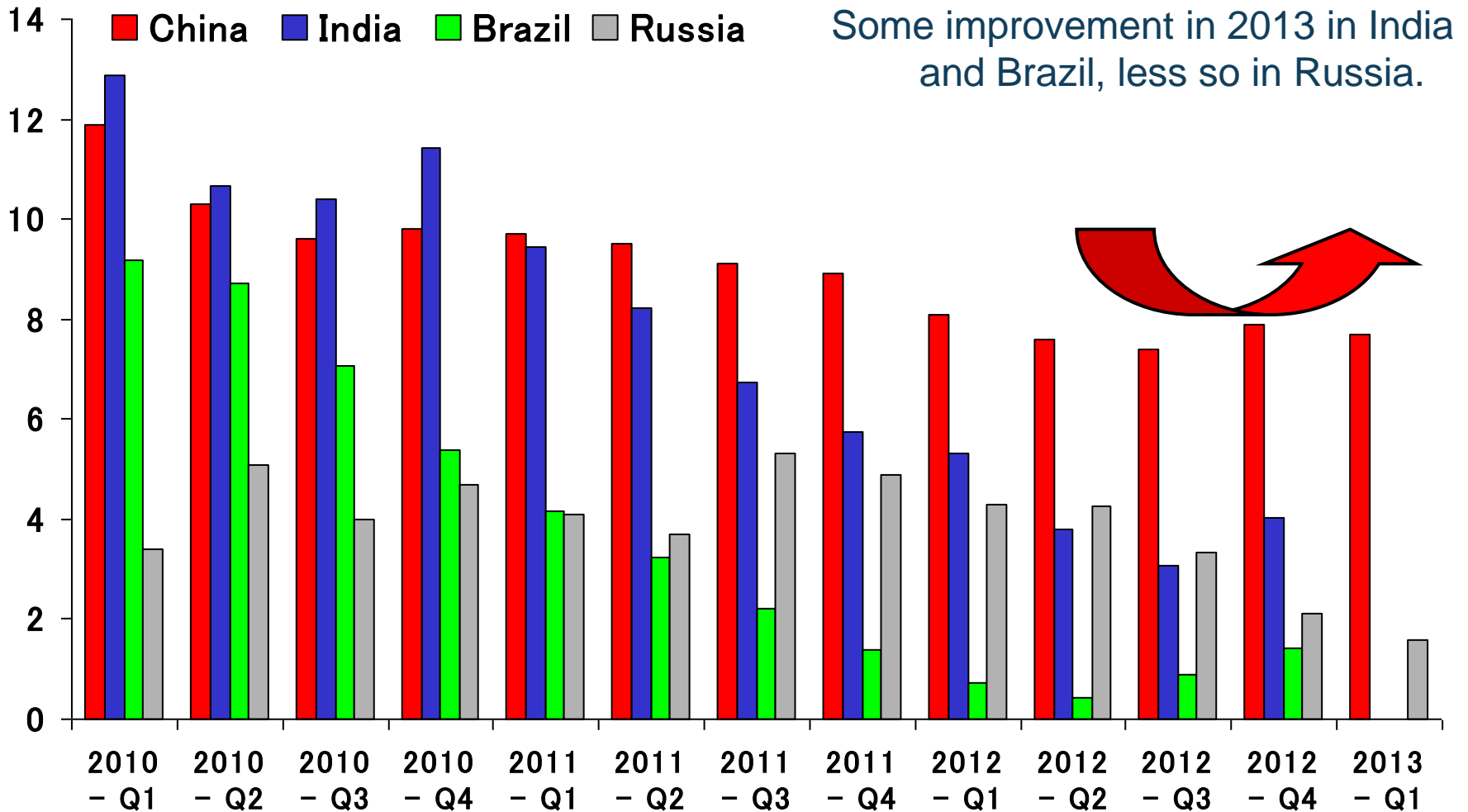
Emerging markets

China: Carrying more of the load; EU, much less



% contribution to real global GDP growth; 2005 US\$; countries that contracted in any year assigned zero growth. Source: Economist Intelligence Unit

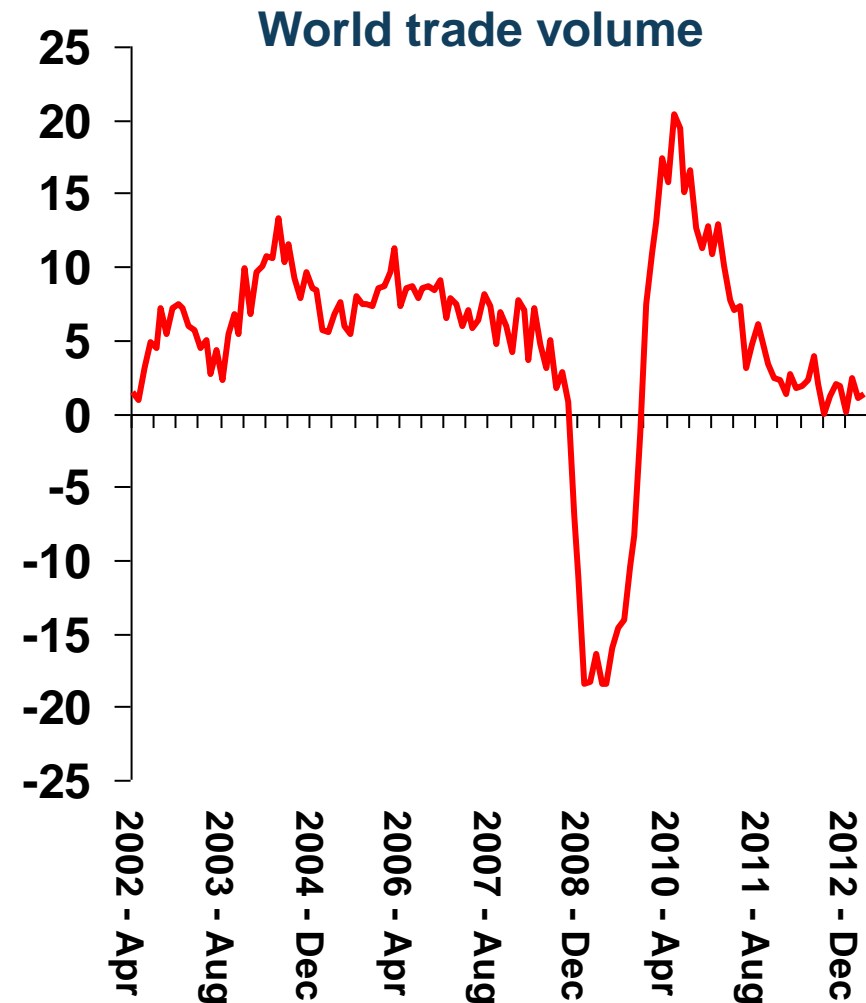
Hitting a BRIC wall? The stars are no longer shining



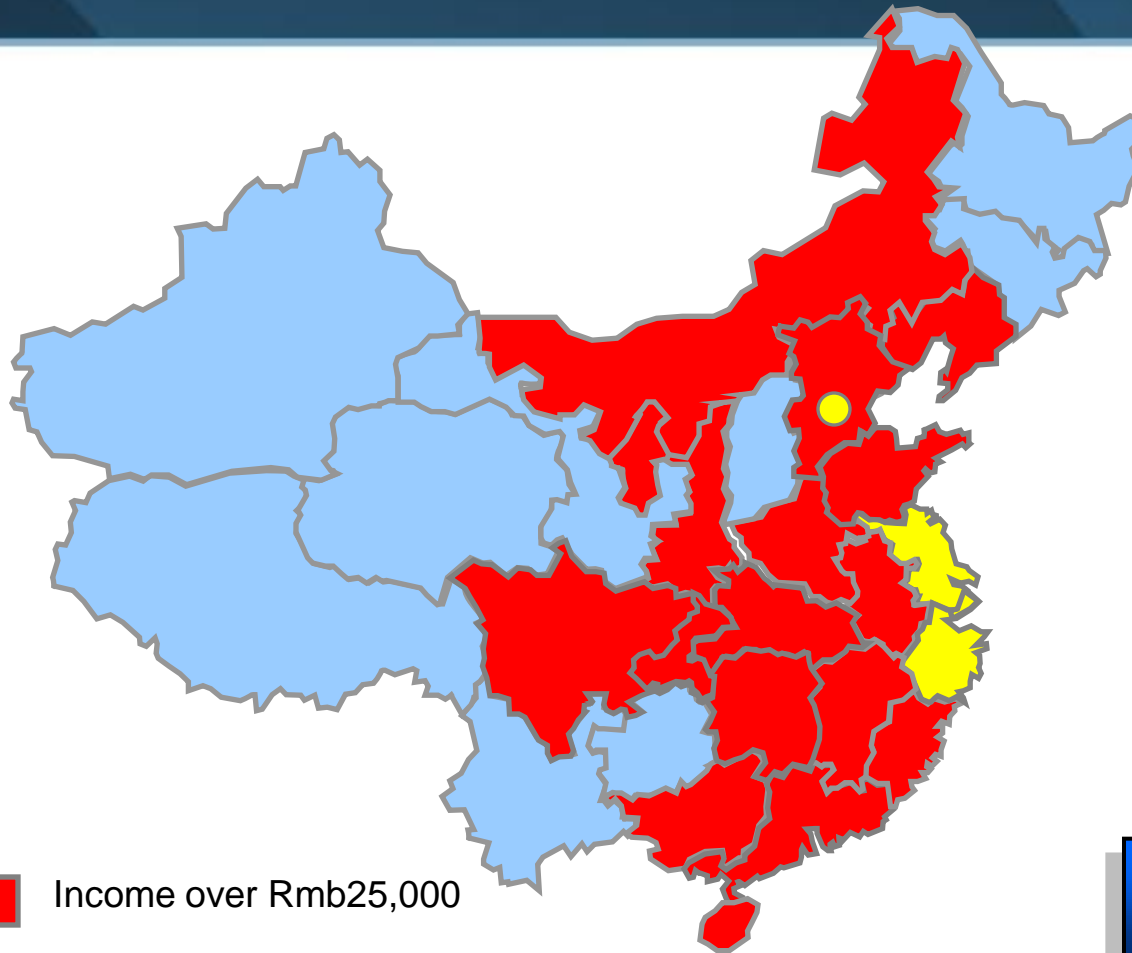
Quarterly real GDP growth % change year on year.
Source: Haver Analytics.

Slowdown in trade growth is hurting emerging markets

- Many emerging markets are highly dependent on exports
- Europe's recession cuts imports
 - EU import demand dropped 4% in 2012 and nearly 5% year-on-year in Q1
- China's slowdown has also curbed imports from emerging markets
 - Imports grew by just 4.5% in 2012 after a 25% jump in 2011
 - But import demand began climbing again in March and April



China: Forecast for 2013



 Income over Rmb25,000

 Income over Rmb40,000

- China has been struggling, by its lofty standards, for the last year
 - First quarter was surprisingly weak
 - A pick-up is underway; infrastructure projects are coming through; property investment has been strong
 - Rising incomes support consumption longer term
- But a new era has started
 - Economic growth no longer at 8+%; economy maturing

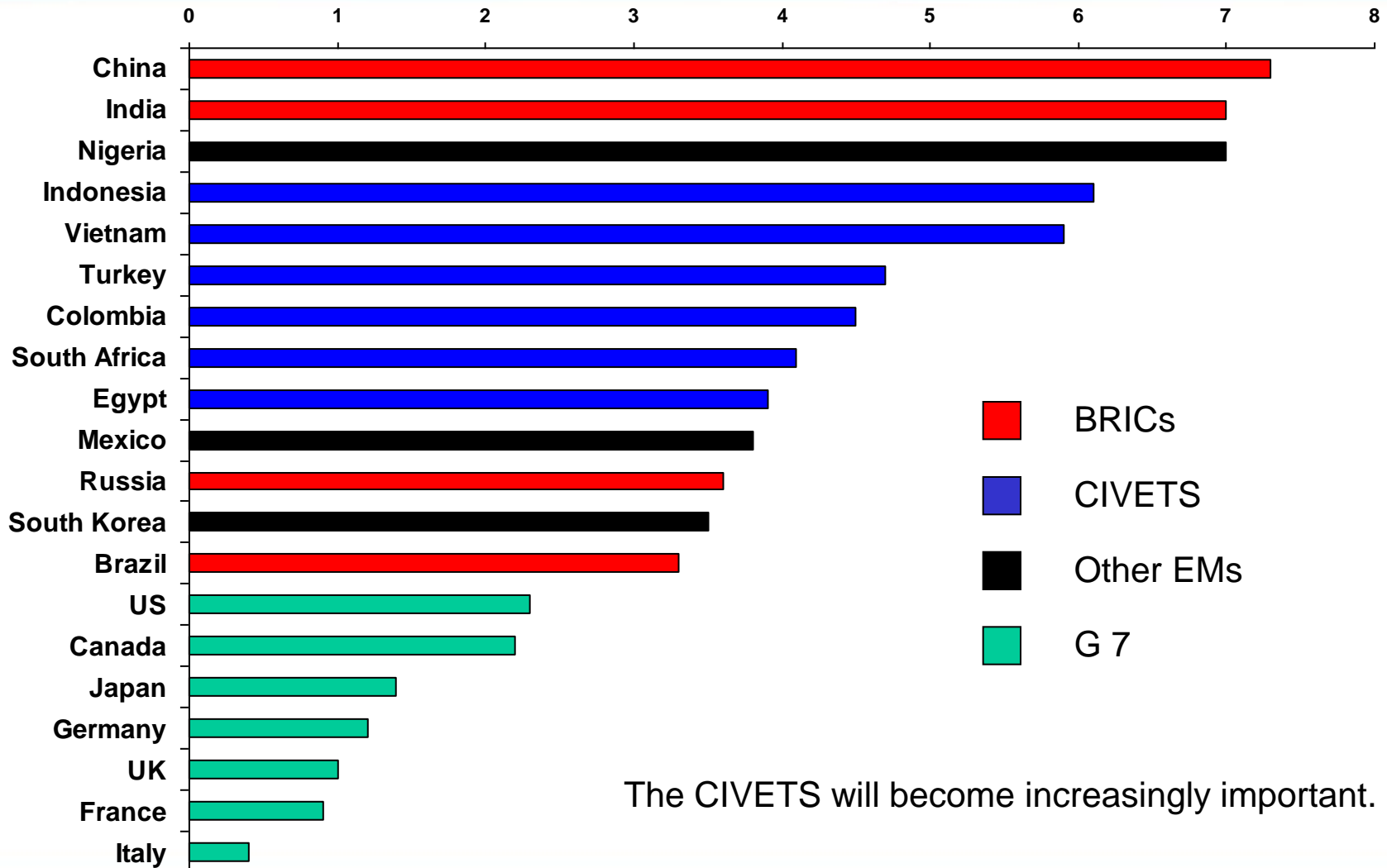
Risks to the global economic outlook

- Politics, politics, politics
 - Governments making a hash of things
 - Fiscal issues in the US, debt crisis in Europe, conflict in the Middle East, factionalism in China, showdown on the Korean peninsula
 - Any of these issues could cause a shock to global financial markets, erode business confidence and kill growth
- Fragility of the economic recovery
 - Austerity savaging Europe; joblessness stubbornly high
- Inflation and asset bubbles
 - Not imminent, but central bank money-printing carries risks
 - Will new asset bubbles start to form? Stocks, PE, property?



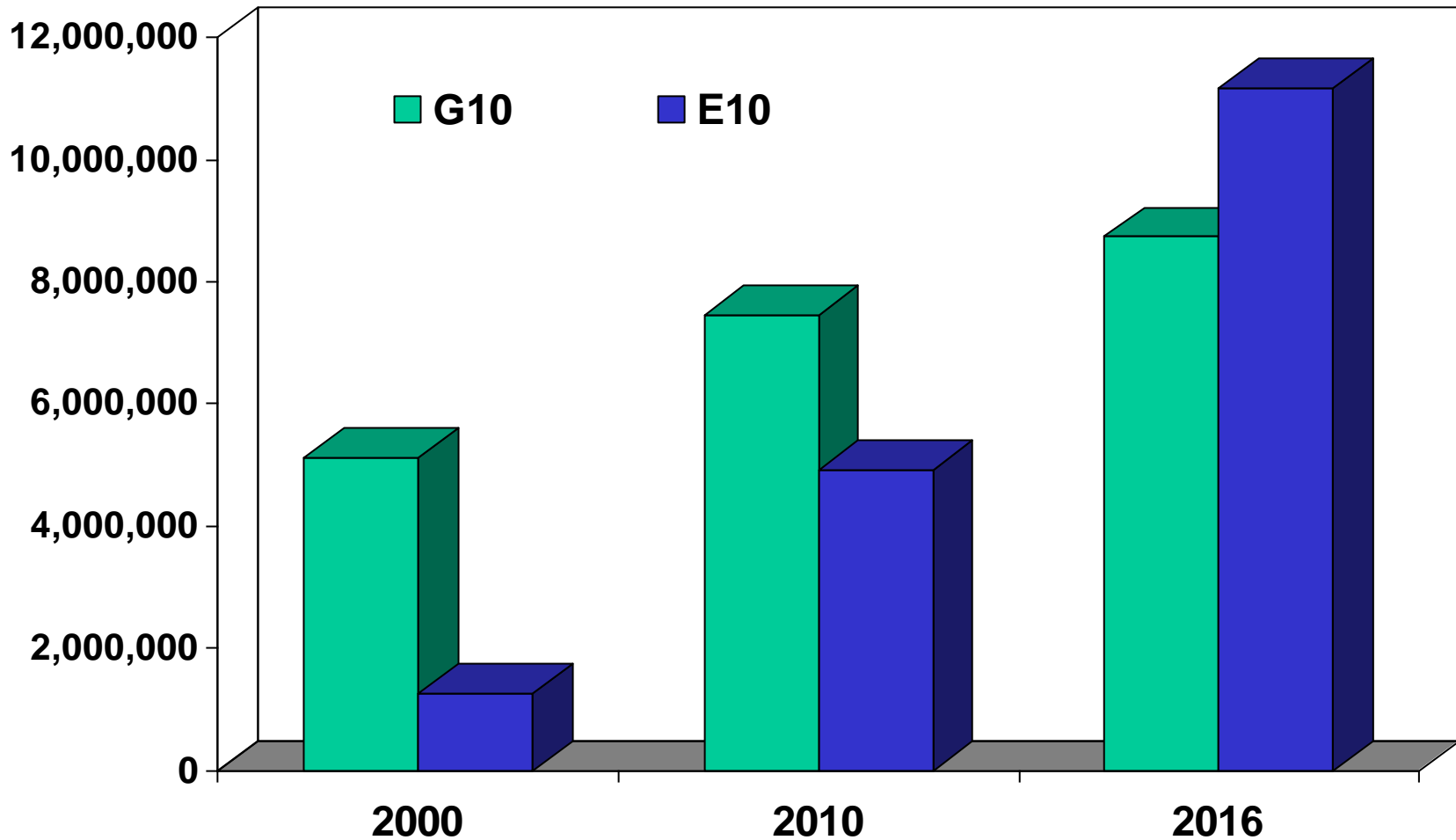
Shifting marketplace

Key economies to watch in next five years



The CIVETS will become increasingly important.

Retail sales: The rise of emerging-market consumers



Retail sales, US\$m. G10: US, UK, Canada, France, Germany, Italy, Spain, Australia, NZ, Japan. E10: Brazil, Russia, India, China, Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa. Source: EIU

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