

The Global Economic Outlook

The US roars back, while the Eurozone stalls, Japan shrinks, and China wobbles

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The world economy: Recovery on track

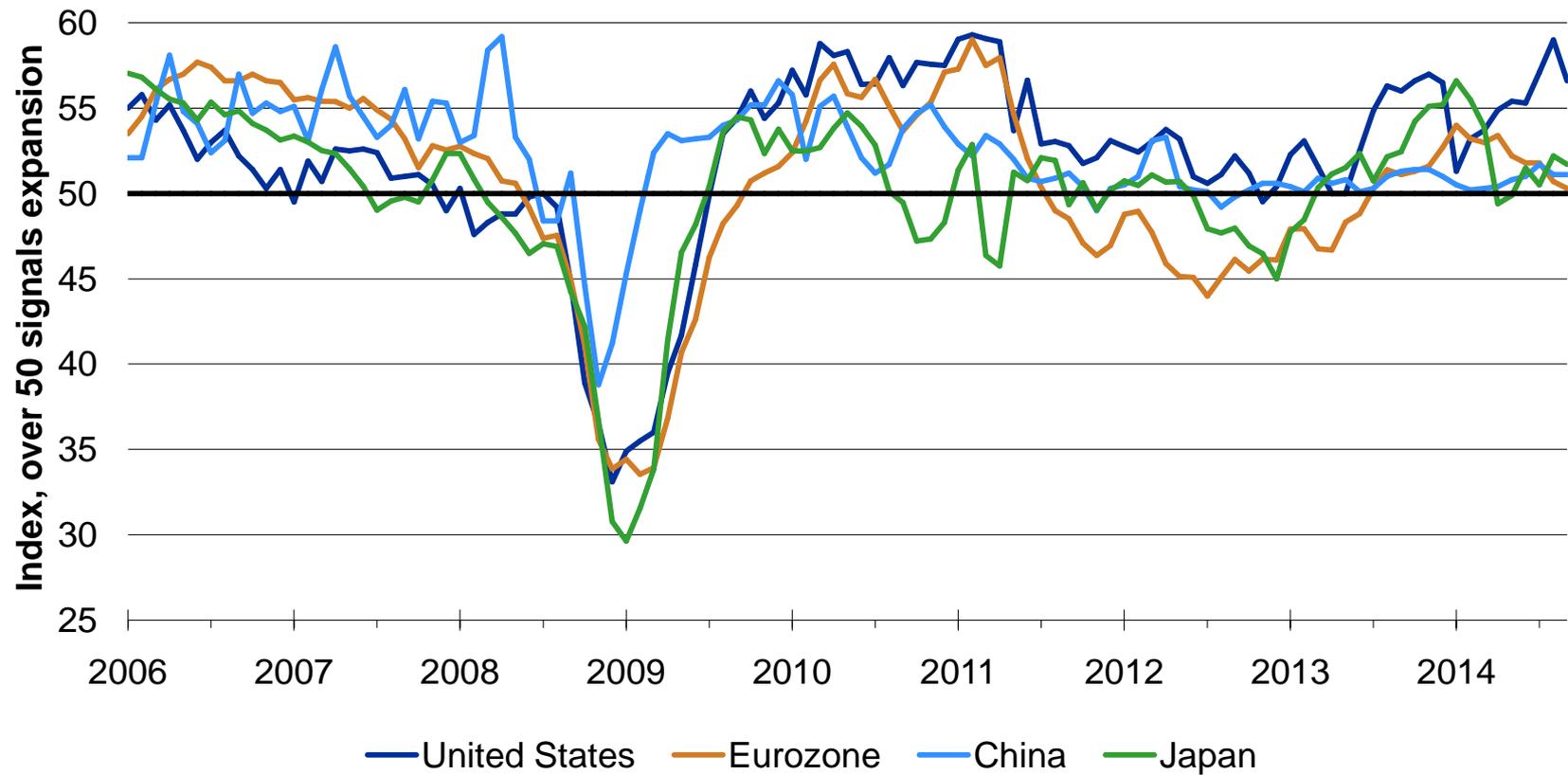
- Global growth has been around 2.5% for the past three years, but the composition has changed: stronger in the US and weaker elsewhere.
- The US economy roared back in the second quarter and growth in the second half will be in the 3% to 3.5% range.
- The Eurozone stalled in the second quarter, but weak growth is likely to resume in the second half.
- Japan's suffered a tax related contraction in the second quarter, but there will be a rebound in the third.
- Recent Chinese data look weak, but the government will do what it needs for growth to remain at 7% or higher.
- Other big emerging markets: India is a bright spot, but Brazil and Russia are in recession.
- World trade growth is beginning to pick up modestly.

The world economy: Recovery on track (cont.)

- Weaker oil prices and monetary stimulus (by the European Central Bank and the People's Bank of China) will underpin growth this year and next.
- Strong production in North America and upside surprises in Libya will keep oil and gas prices in check for the next couple of years.
- Subdued energy and food prices will result in tame inflation for at least the next year – in the Eurozone deflation is a persistent threat.
- Most major central banks are either on hold or providing more liquidity – the Fed is unlikely to start hiking rates until summer of 2015.
- With US news mostly upbeat, but news elsewhere not so good, the dollar is set to strengthen more – though it is still fairly low by historical standards.
- There is no shortage of risks: secular stagnation in the developed world, deflation in Europe, poor handling of “exit strategies” by central banks, China hard landing, even weaker emerging market growth, geopolitics.

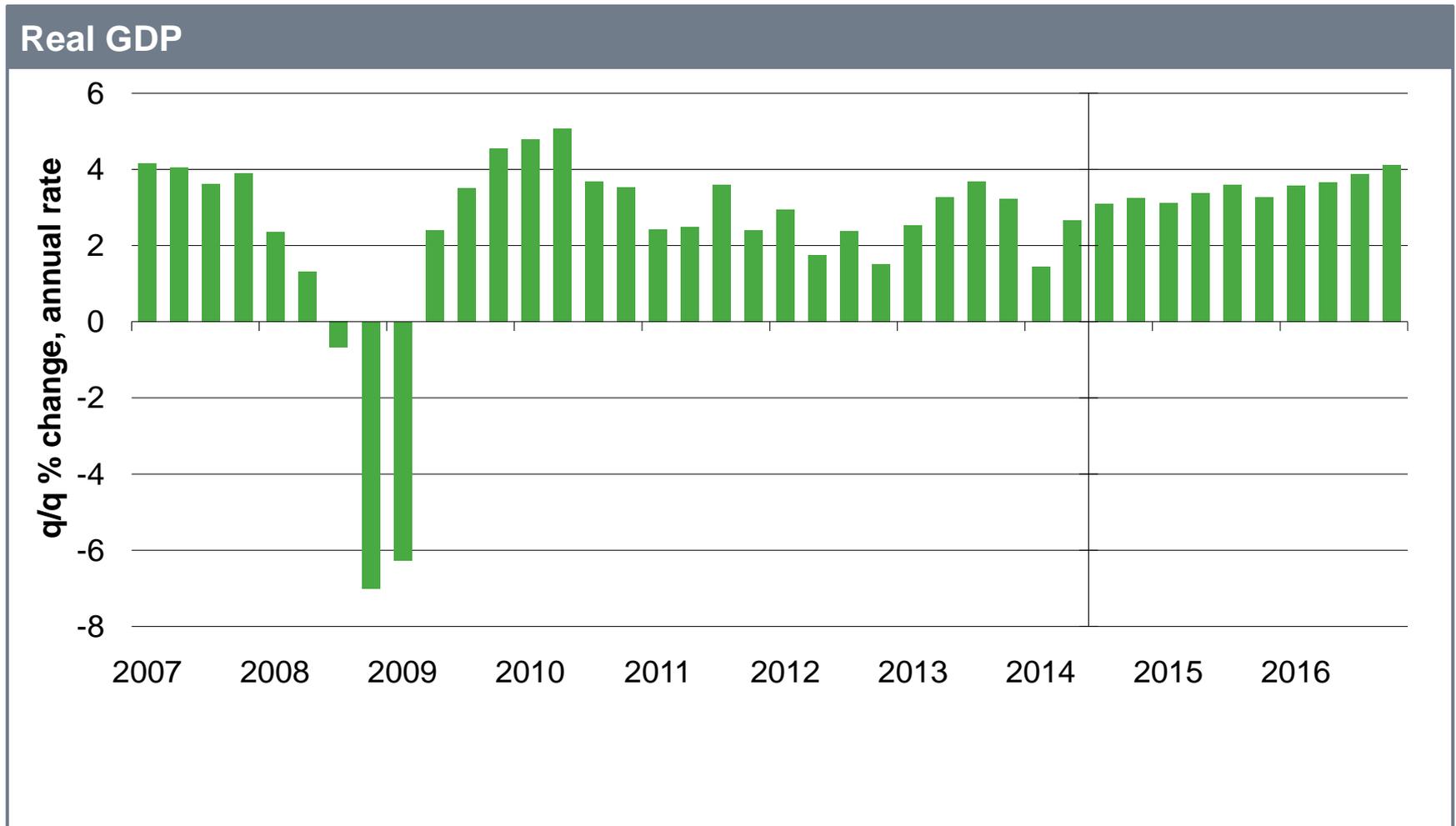
Purchasing managers' indexes for manufacturing give mixed signals

Purchasing managers' indexes

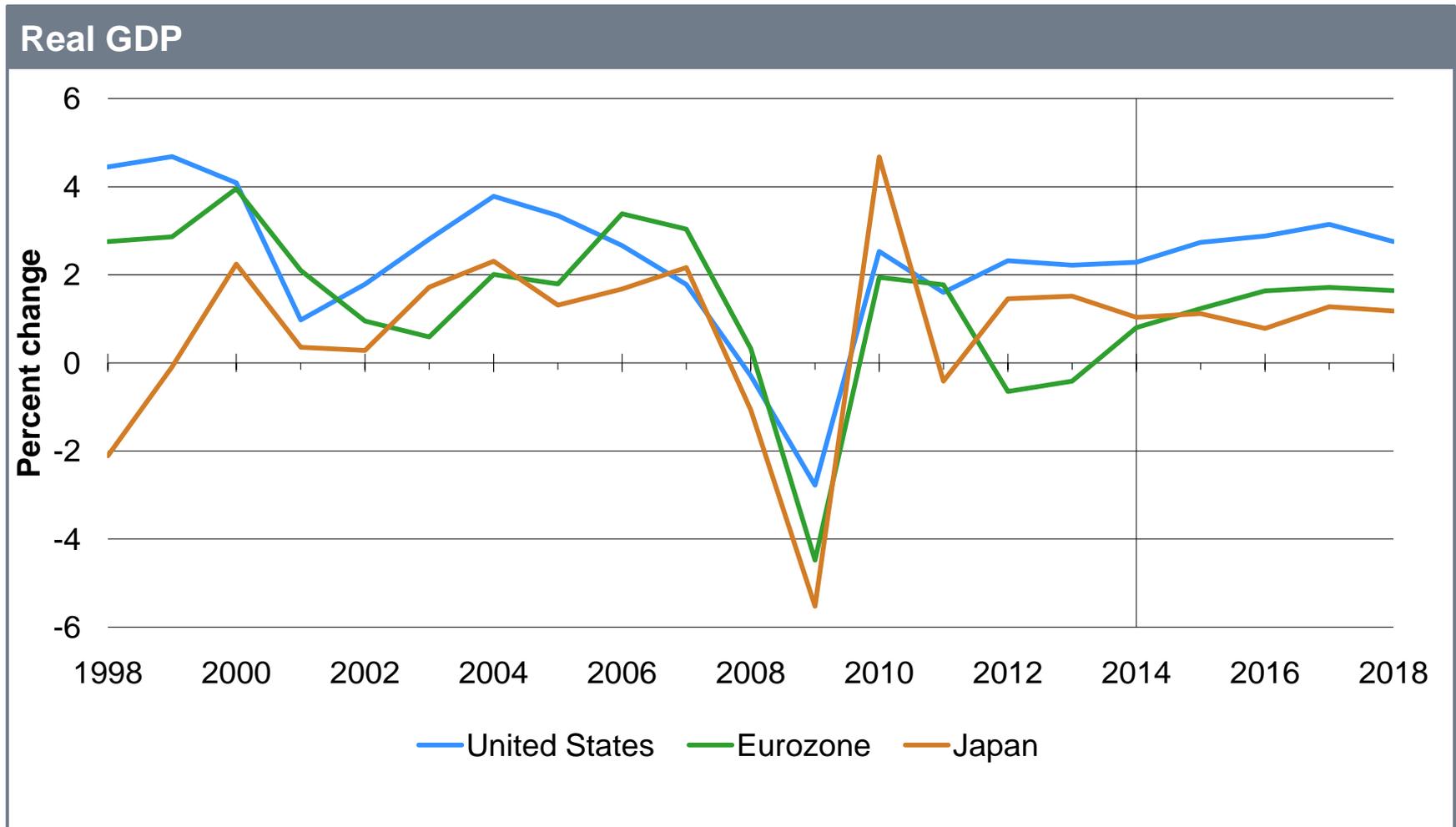


Sources: Institute for Supply Management (US), Markit, National Bureau of Statistics (China)

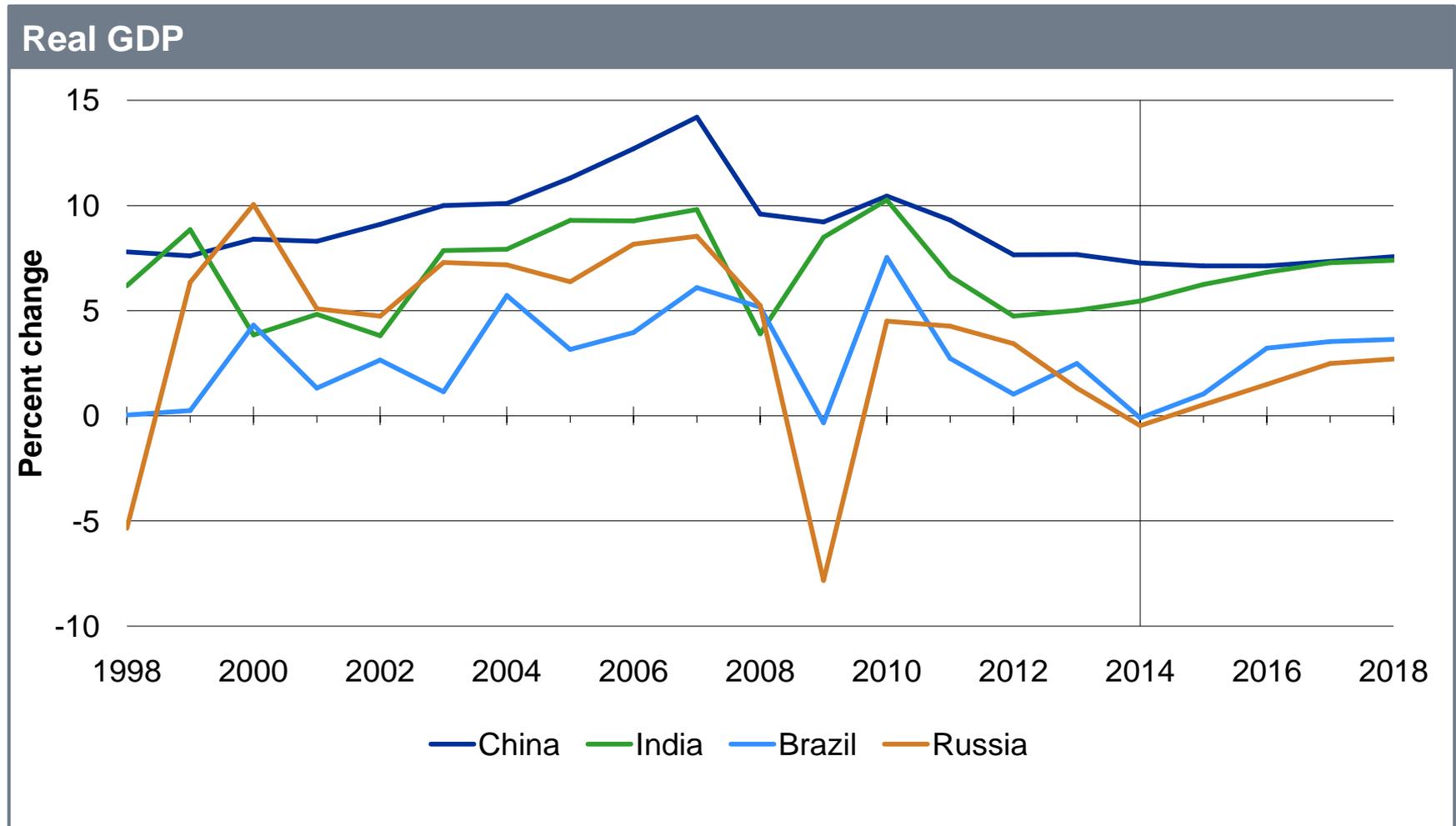
After a slow start to 2014, global real GDP is rising at a moderate pace



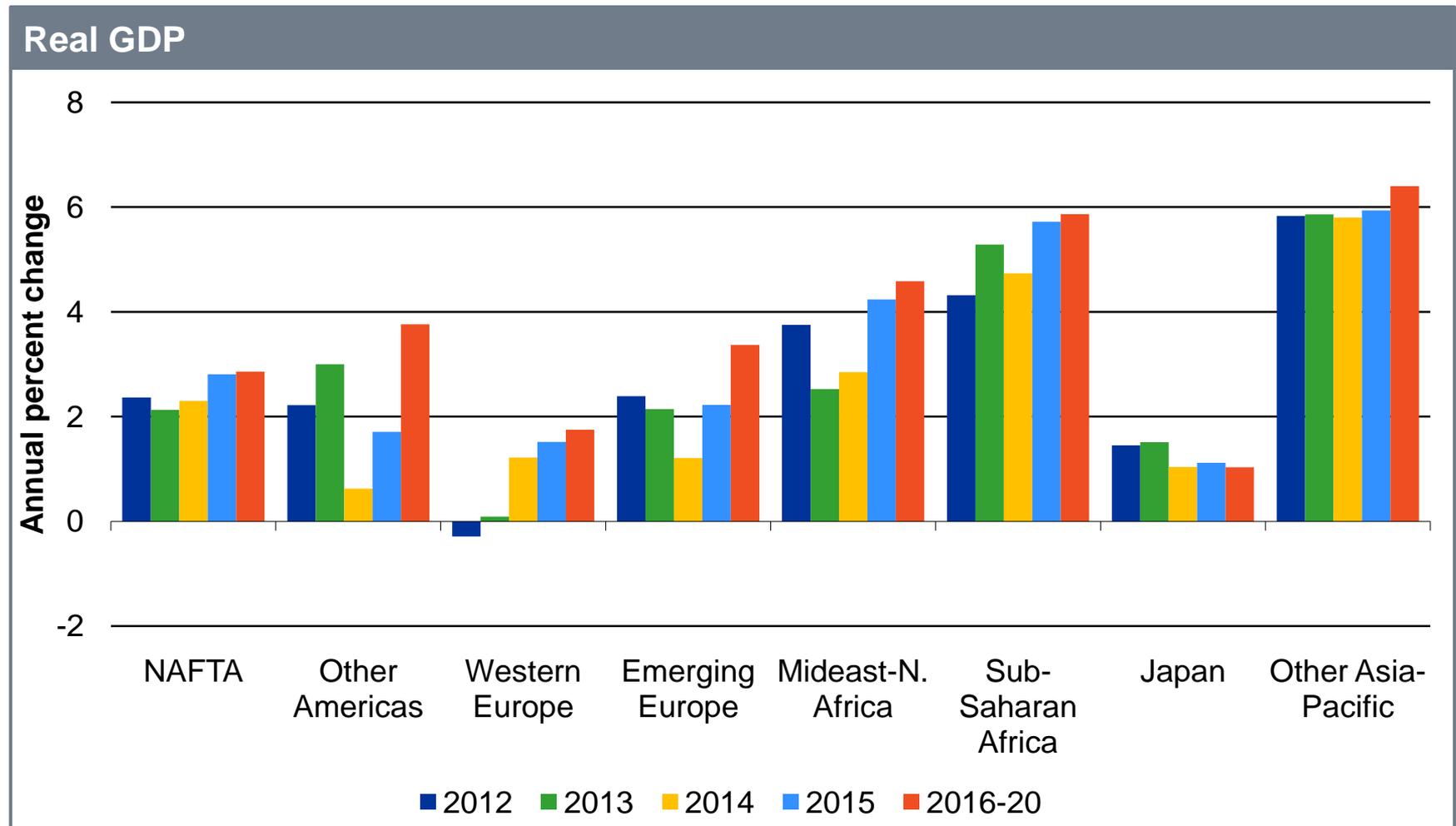
Real GDP growth in the United States, Eurozone, and Japan



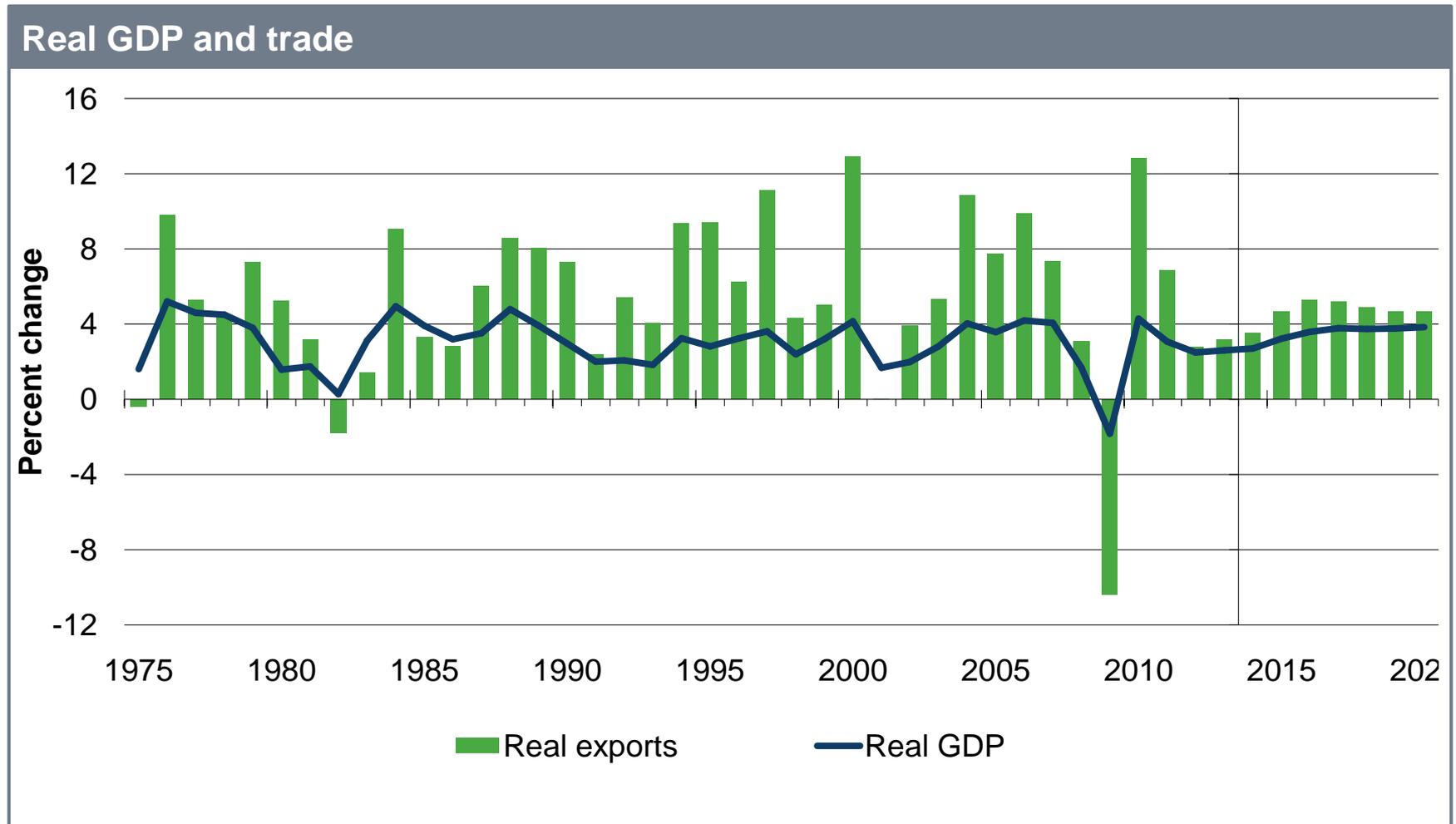
Real GDP growth in key emerging markets



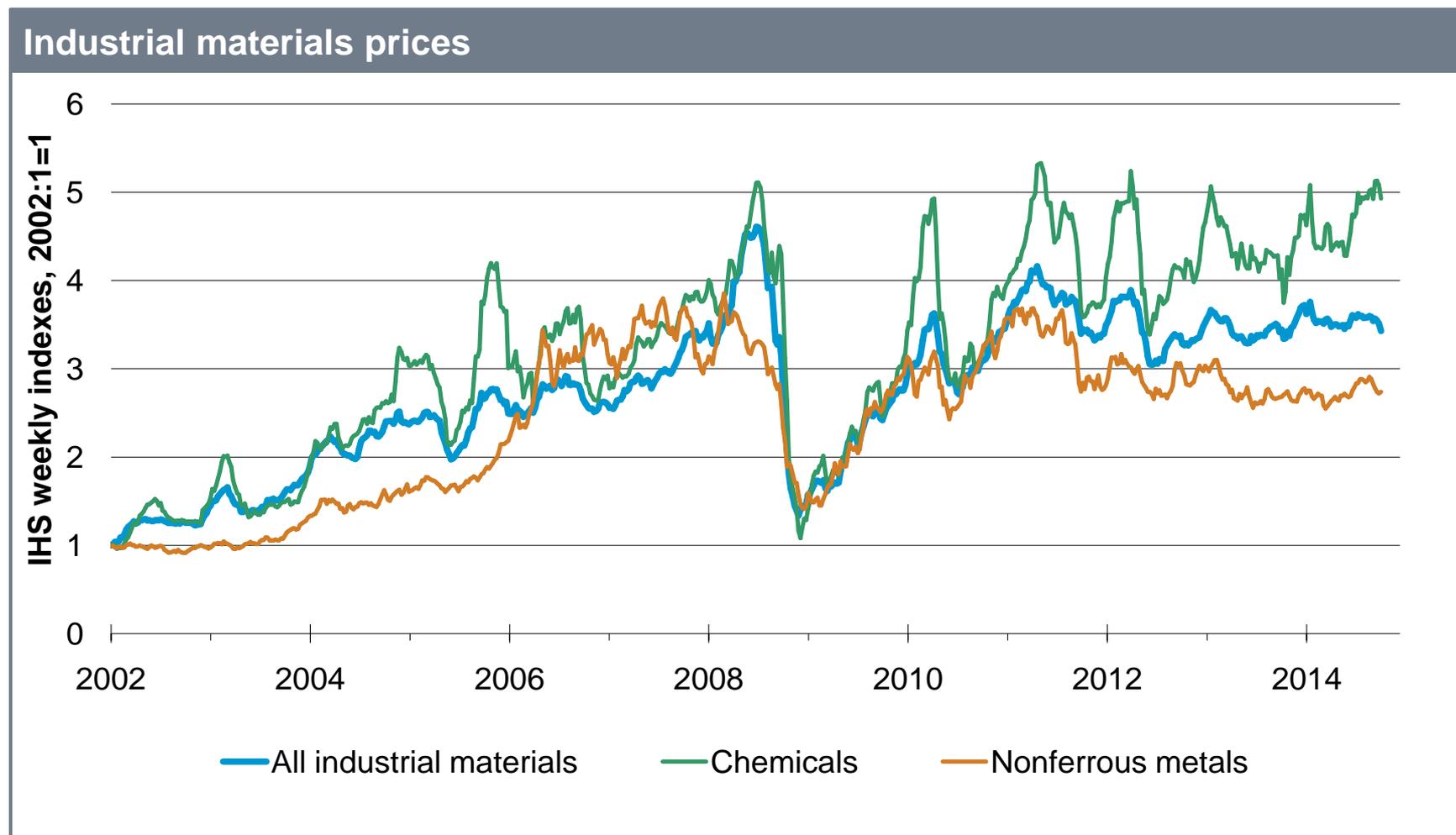
Asia-Pacific (excluding Japan) and Sub-Saharan Africa will achieve the fastest growth in real GDP



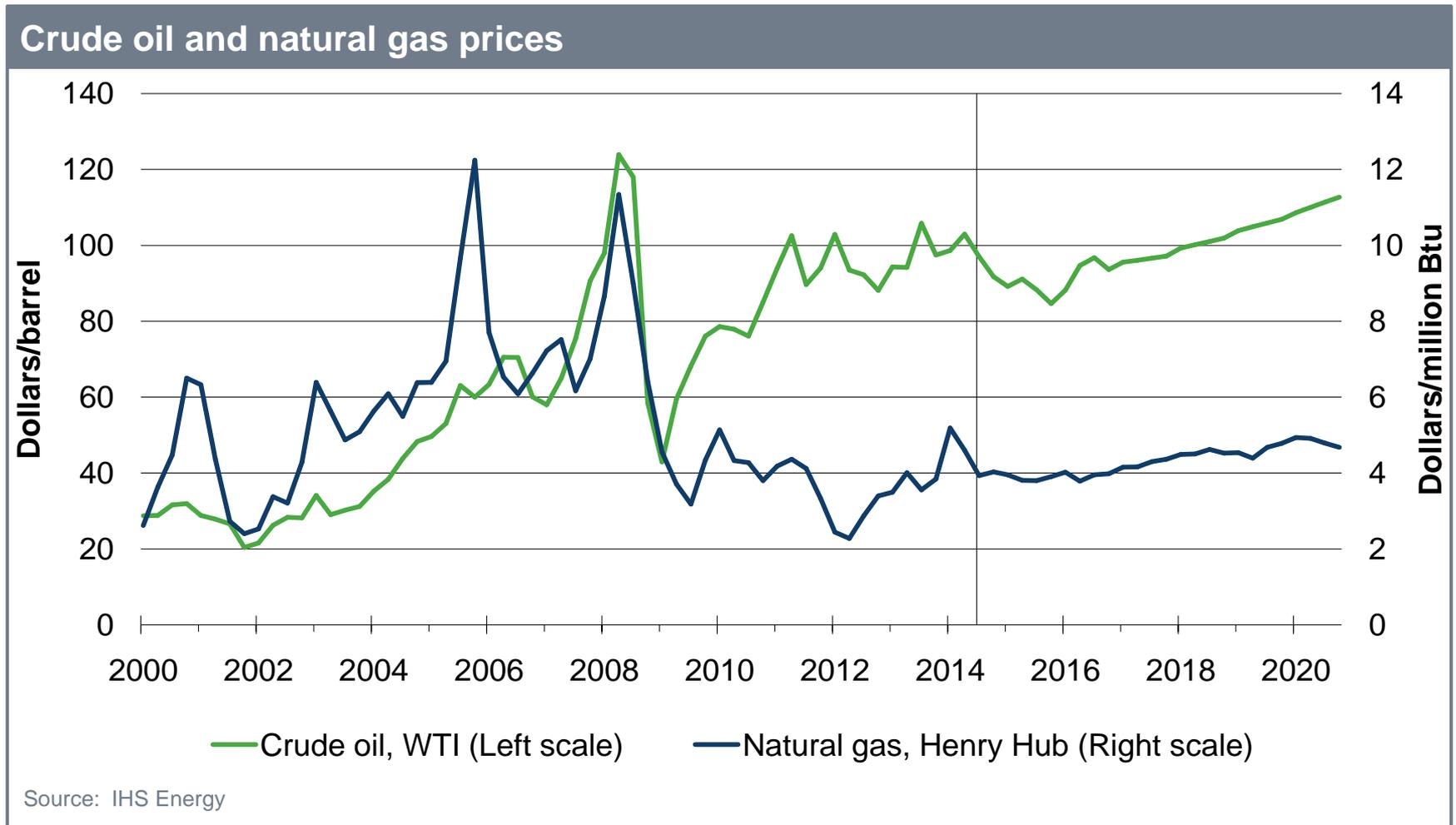
Growth in world trade volume is beginning to pick up



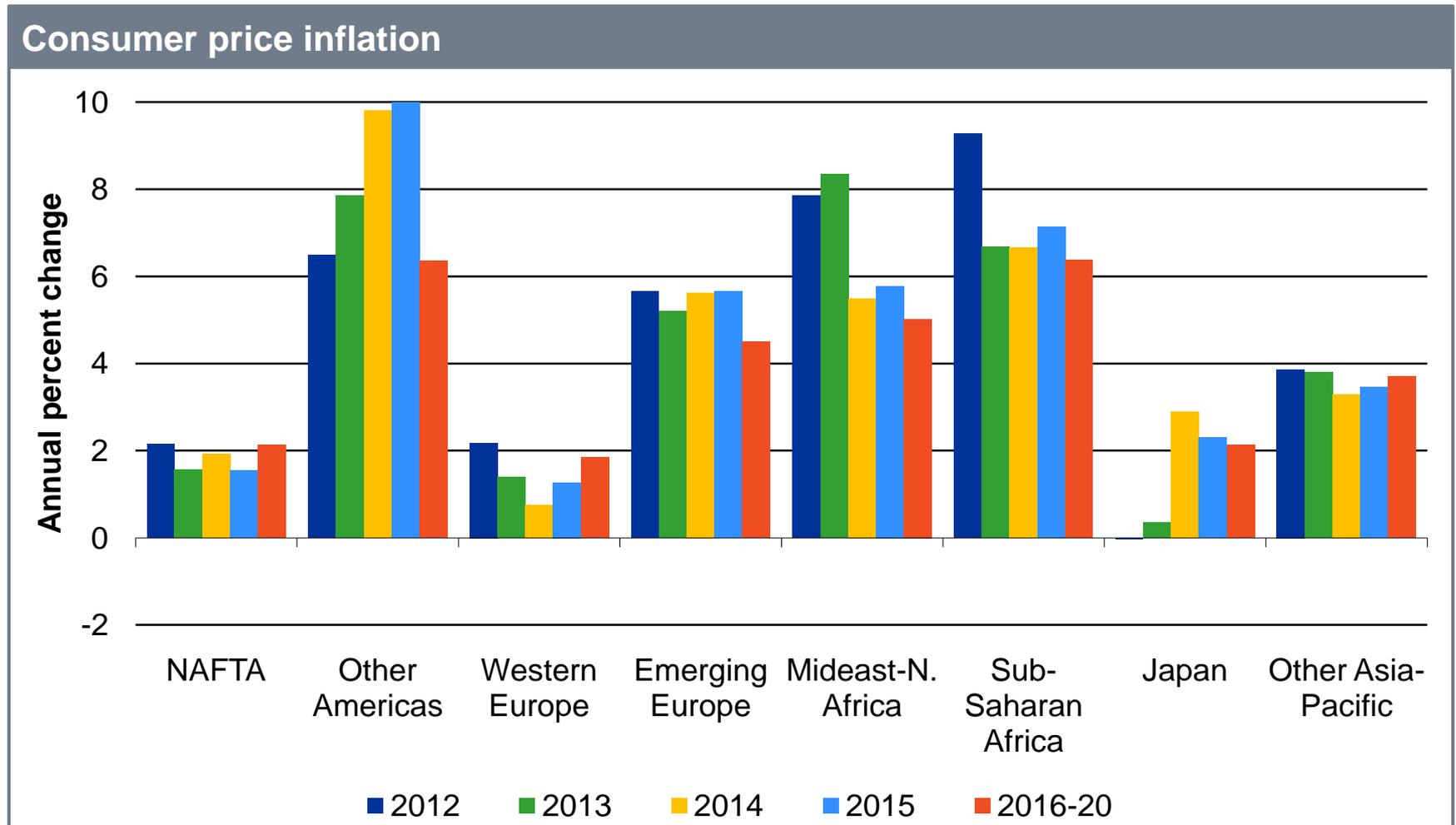
Industrial materials prices show no clear direction as new supplies are sufficient to meet demand growth



US crude oil and natural gas prices on different paths

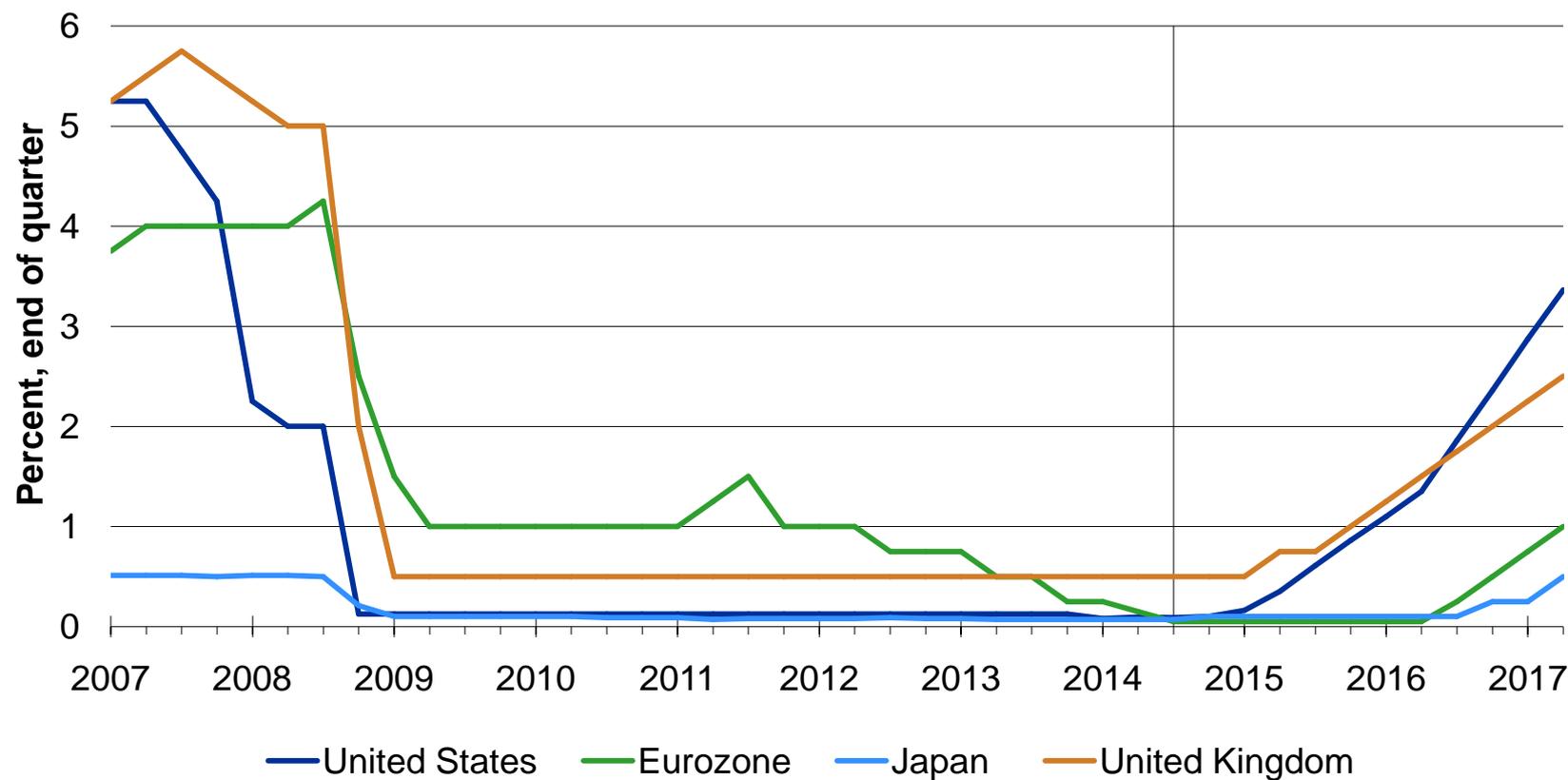


Consumer price inflation varies by region, but is not a threat



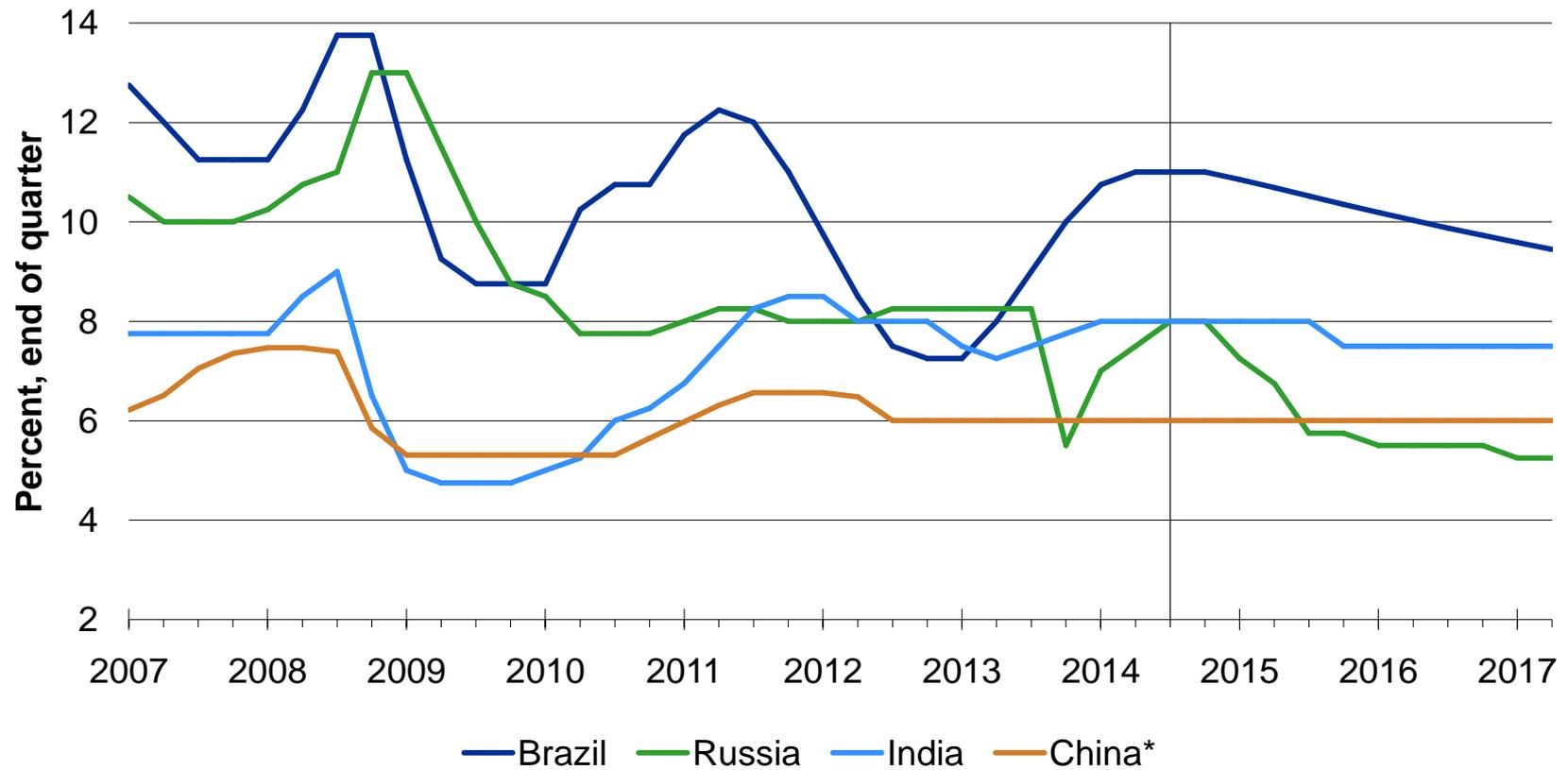
The Bank of England will likely lead the upturn in policy interest rates

Policy interest rates



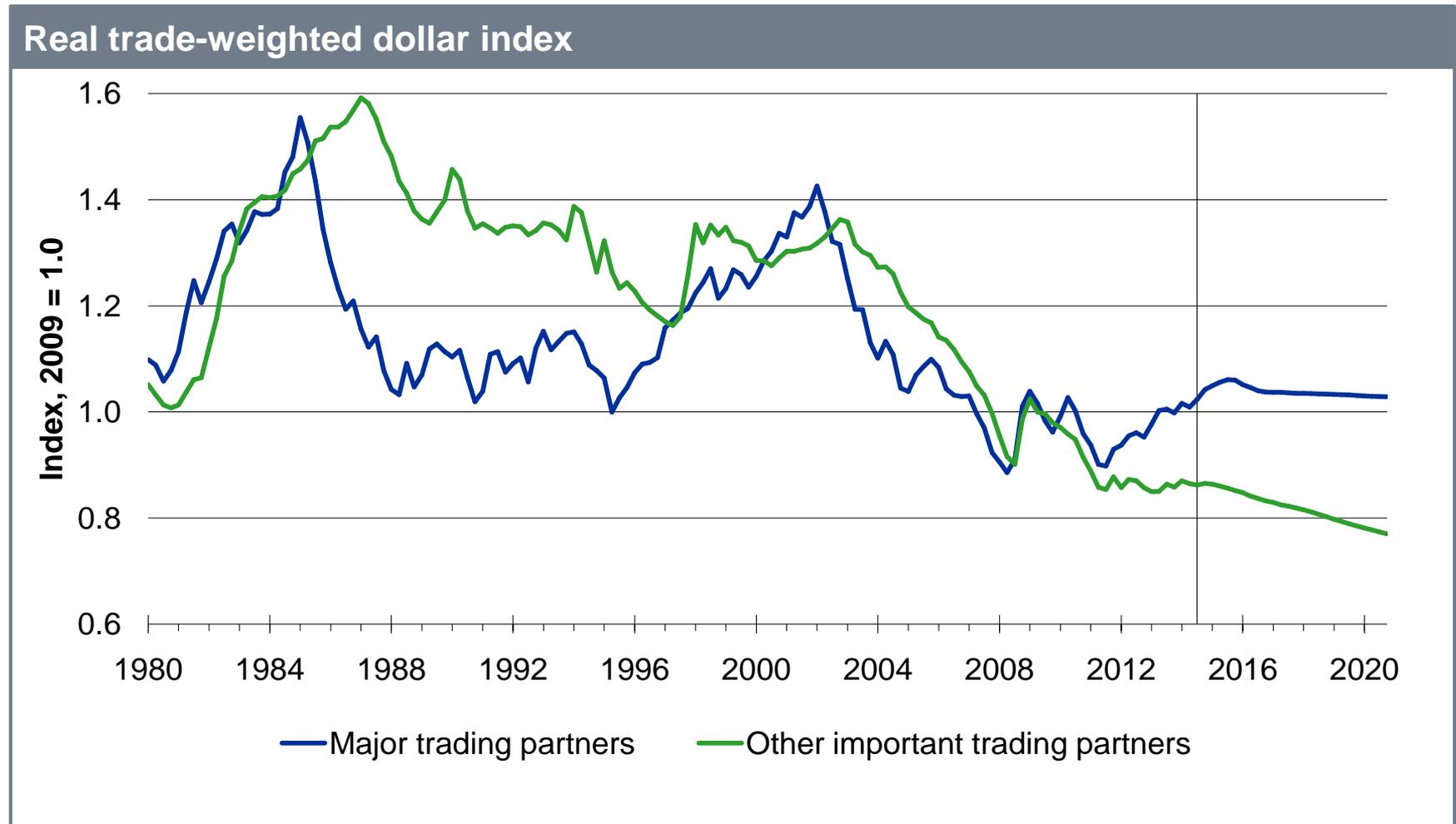
Policy interest rates in key emerging markets will hold steady or decline

Policy interest rates

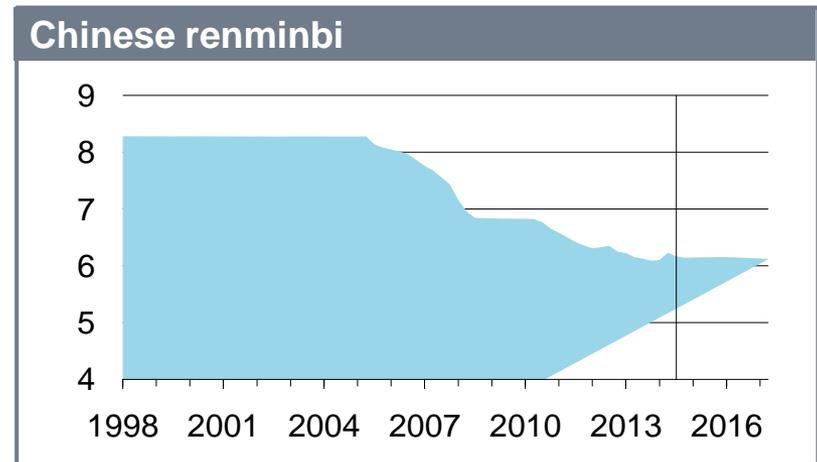
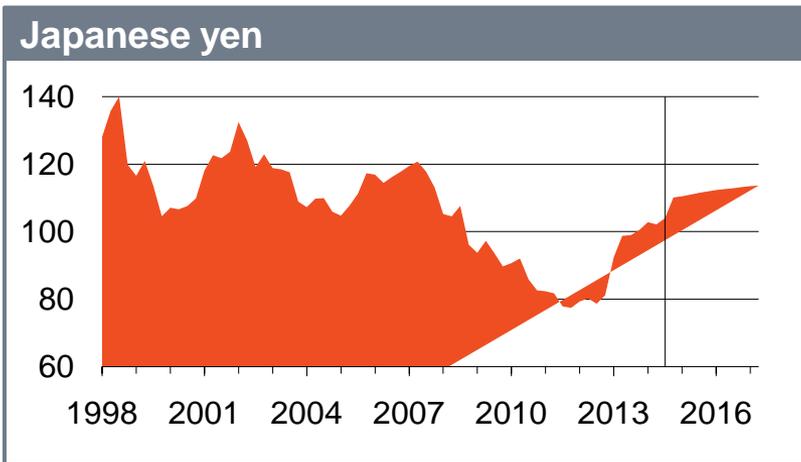
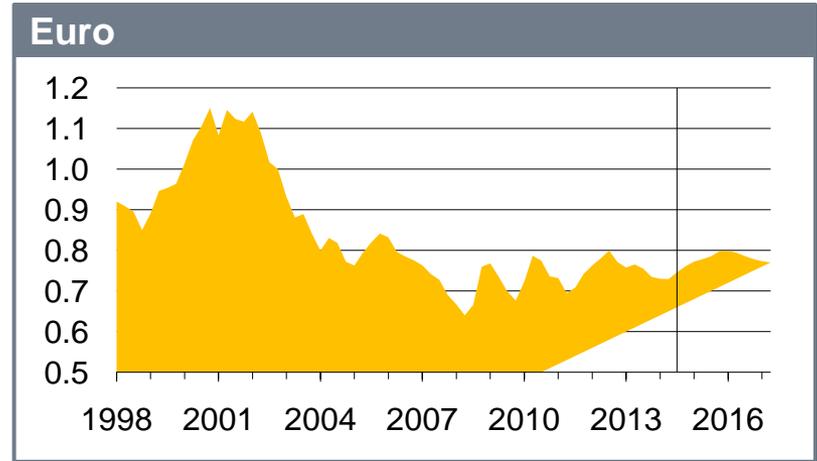
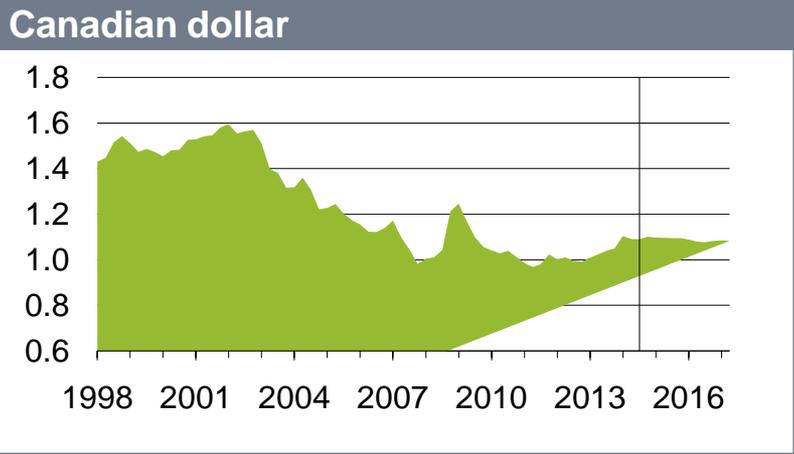


* One-year loan rate

The dollar: Rising, but still competitive



Exchange rates per US dollar

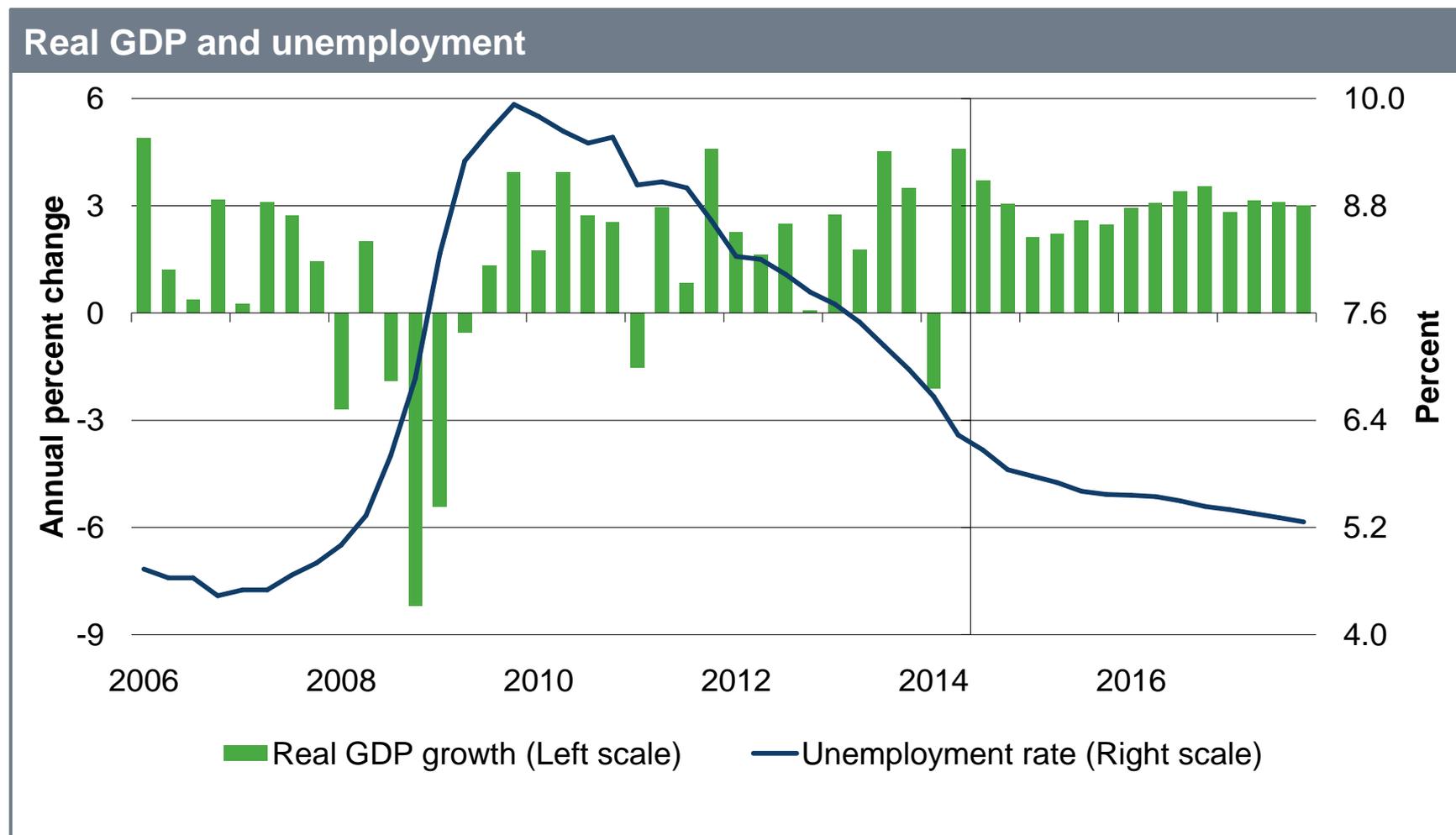


Quarterly averages

US Outlook: Mostly upbeat

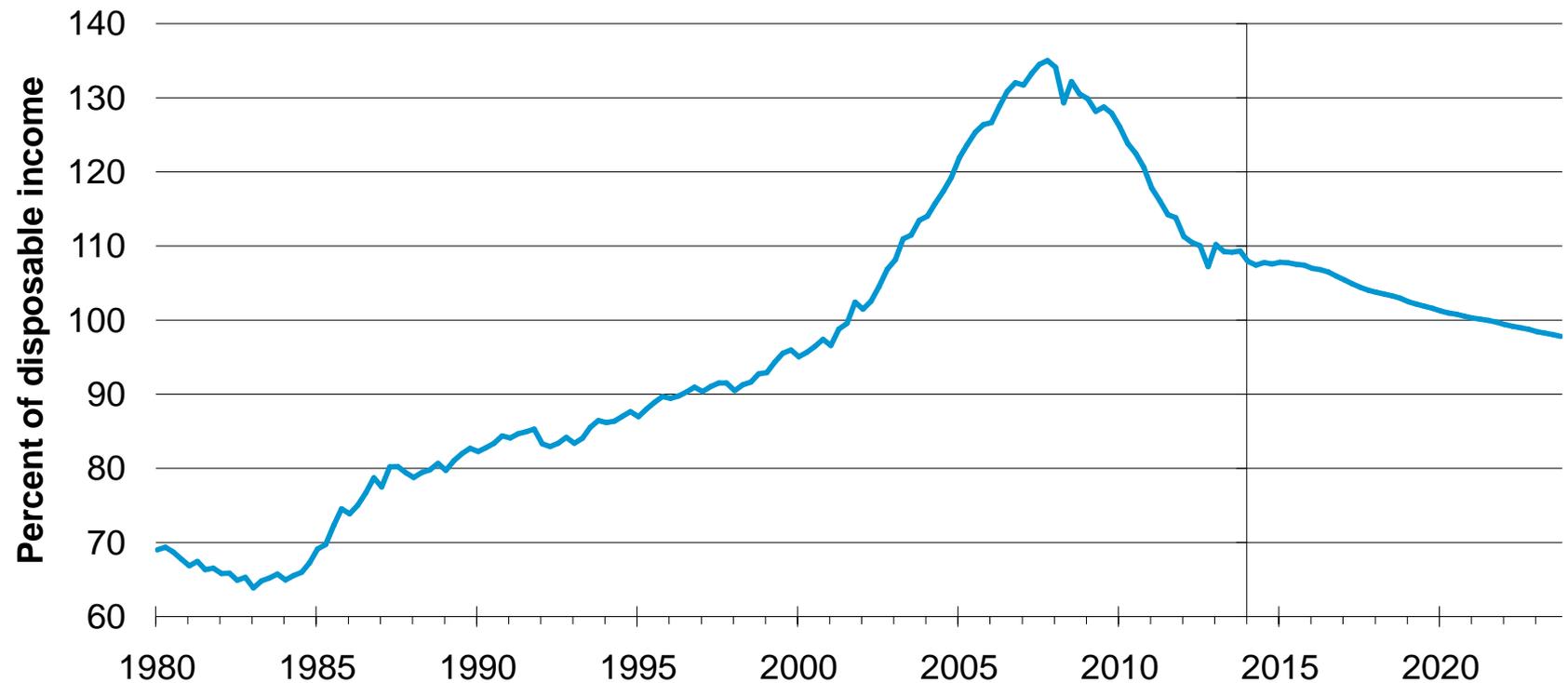
- The weather and inventory induced volatility in q1 and q2 is behind us.
- Continued good economic growth to continue through at least 2015.
- Sector contributions:
 - The consumer will remain the unsung hero in the recovery.
 - Housing will continue to improve, but remain below-par due to structural and demographic issues.
 - Investment spending will also continue to grow, but tech-spending creates tenuous revenue comparisons.
 - Most of the near-term volatility that will come from international trade, but over the long-term, the size of the trade deficit should hold steady. Stronger dollar and weak economic growth could be problematic.
 - Government spending contributions to growth will remain near zero with little additional federal deficit reduction efforts expected.
- Fed tightening to take place in the summer of 2015, but the period leading up to this event will be fraught with highly speculative arguments.
- Key dependencies:
 - Improved fundamentals in labor market: Better labor supply and productivity.
 - No economic shocks (e.g., fiscal policy gaffes, international crises turned hot, foreign economic growth to improve).
 - Potential rebound in the US\$ orderly with reasonable import responses.
 - No irrational expectations to pending Fed policy moves in 2015.

US real GDP growth will be sufficient to bring further reductions in the unemployment rate



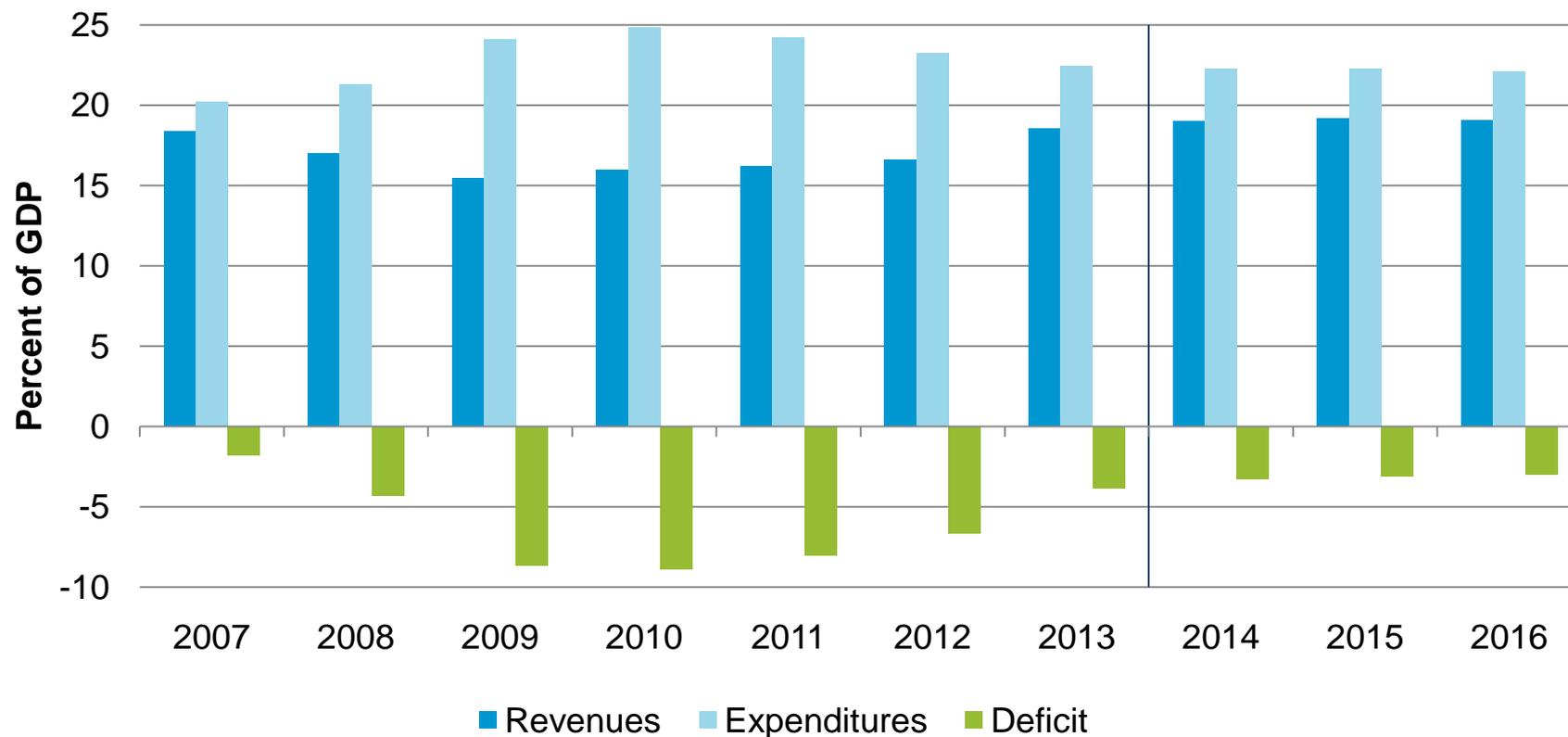
US household deleveraging continues on the mortgage side – lowest debt ratio since 2002

Household liabilities



The secret isn't out yet in Washington: The federal budget deficit is unproblematic

Federal budget balance sheet

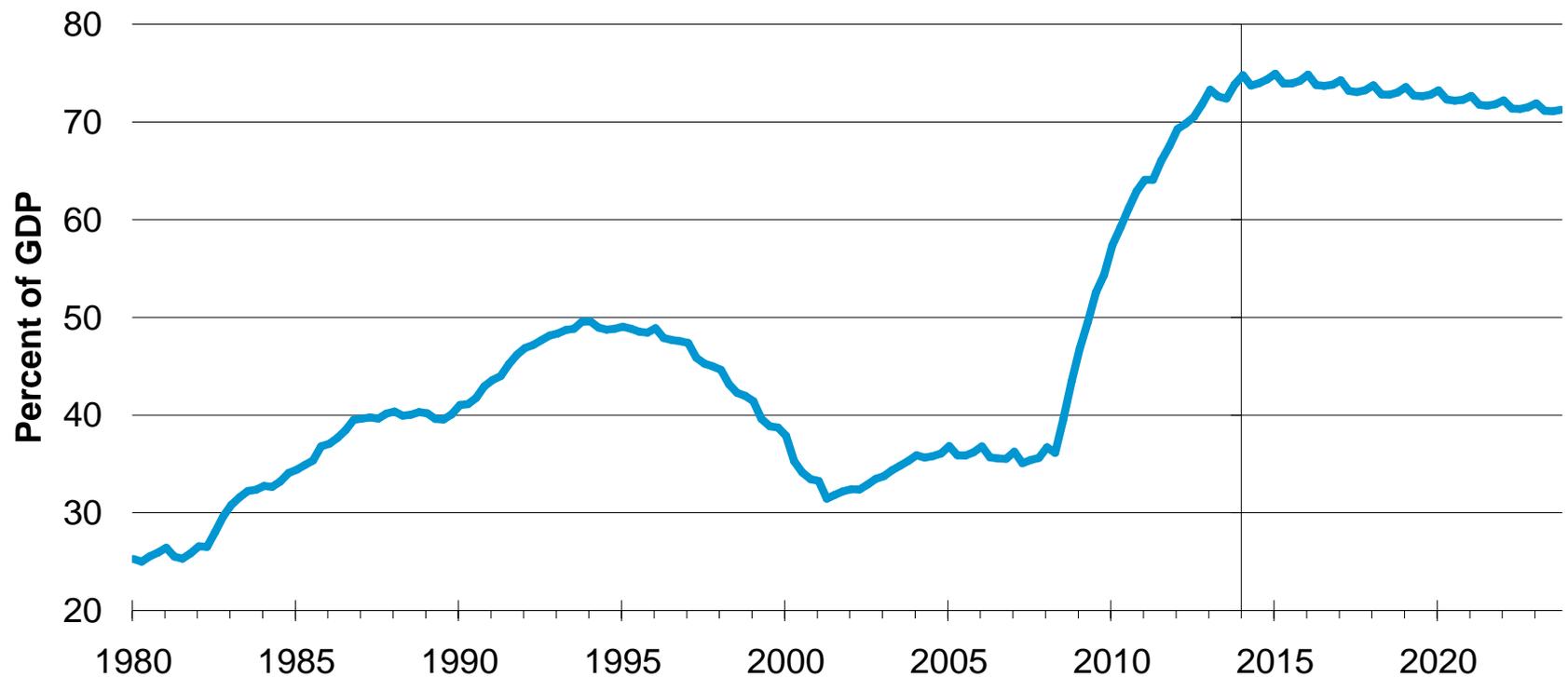


Source: IHS

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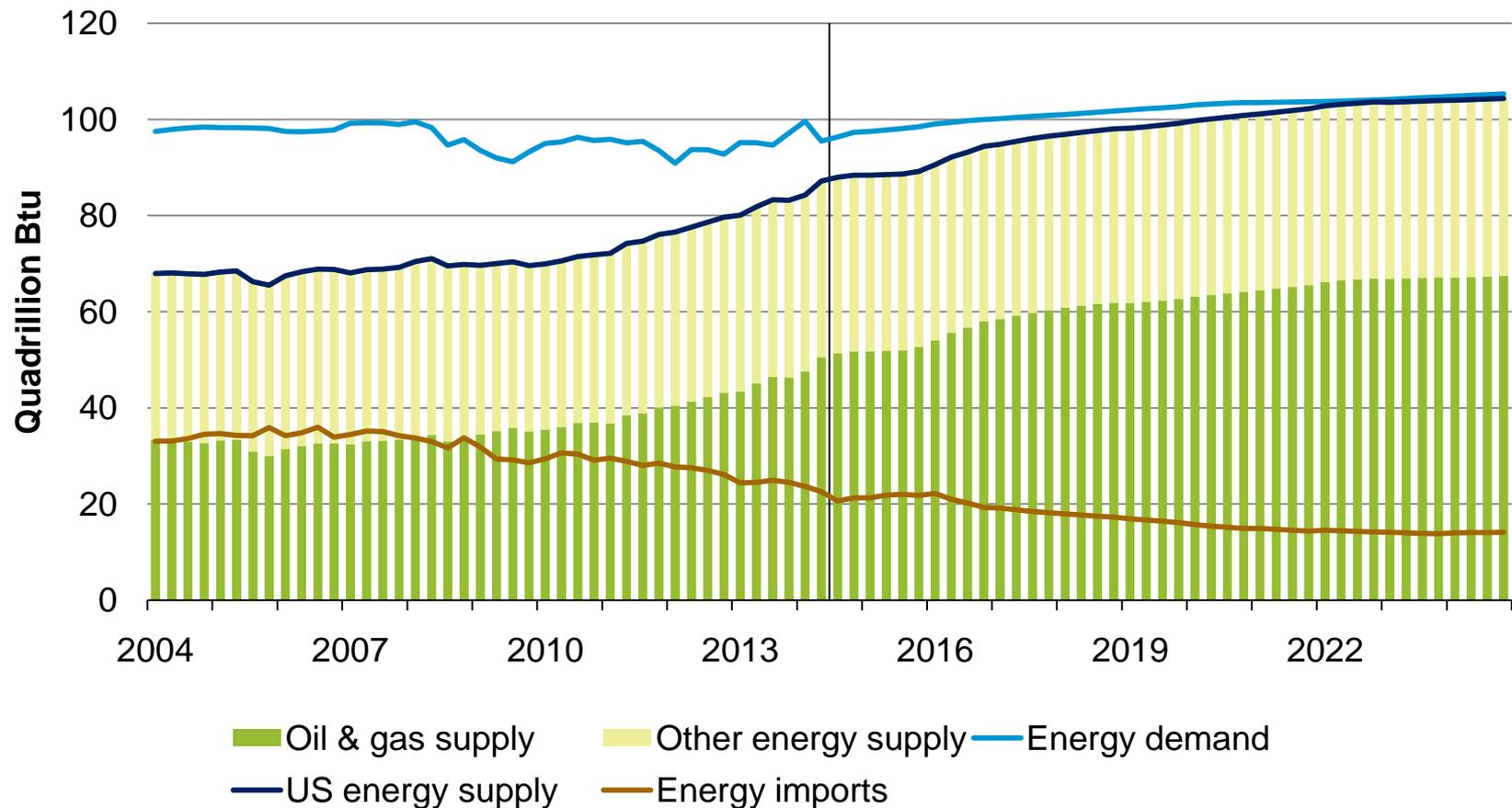
US federal debt ratio to stabilize just under 75%—but the biggest problems come later, as the population ages

Publicly held federal debt

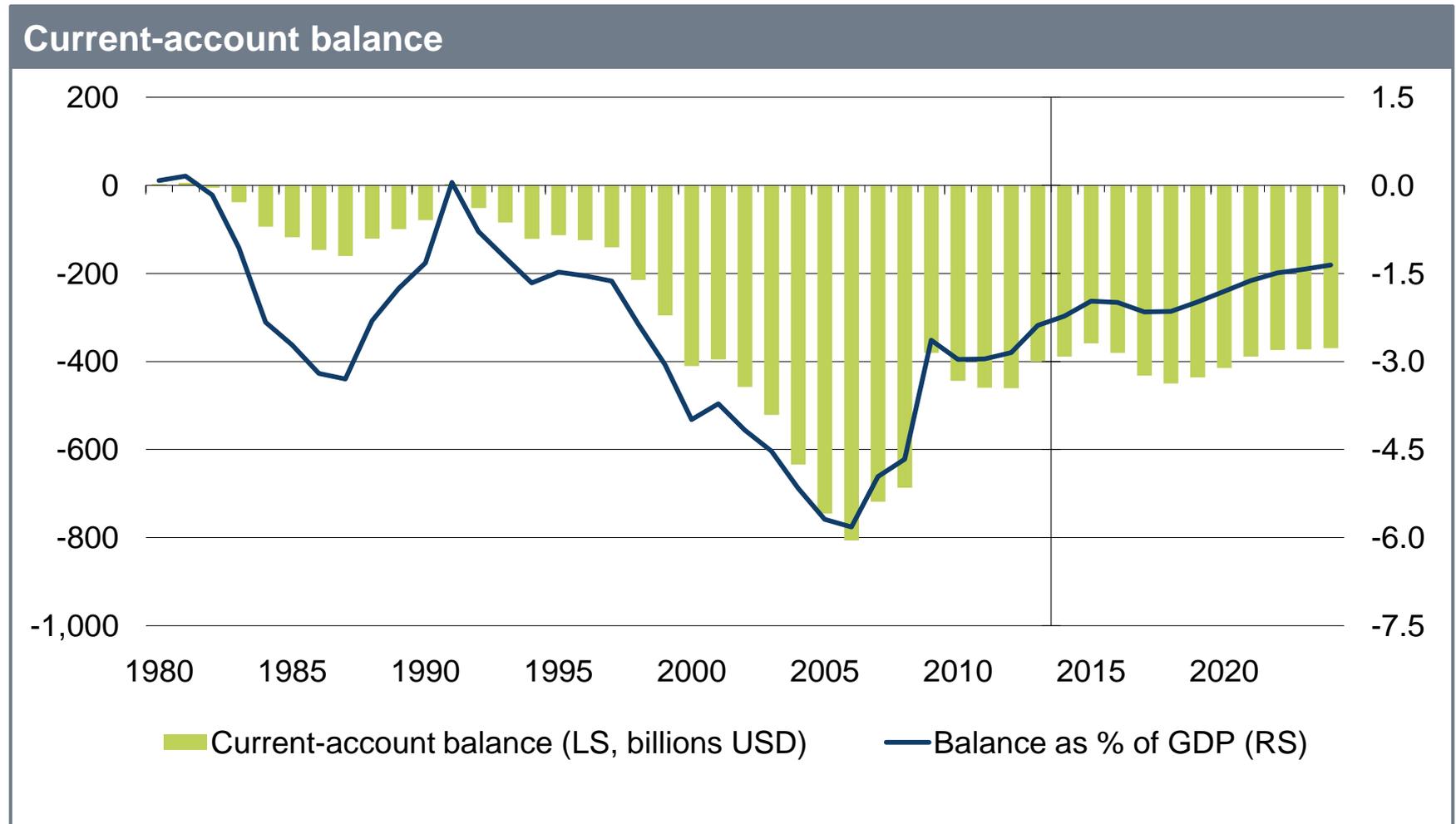


Unconventional sources of oil and natural gas are boosting US energy supplies

US energy supply and demand



The US current-account deficit: Thanks to falling oil imports going, going, gone?

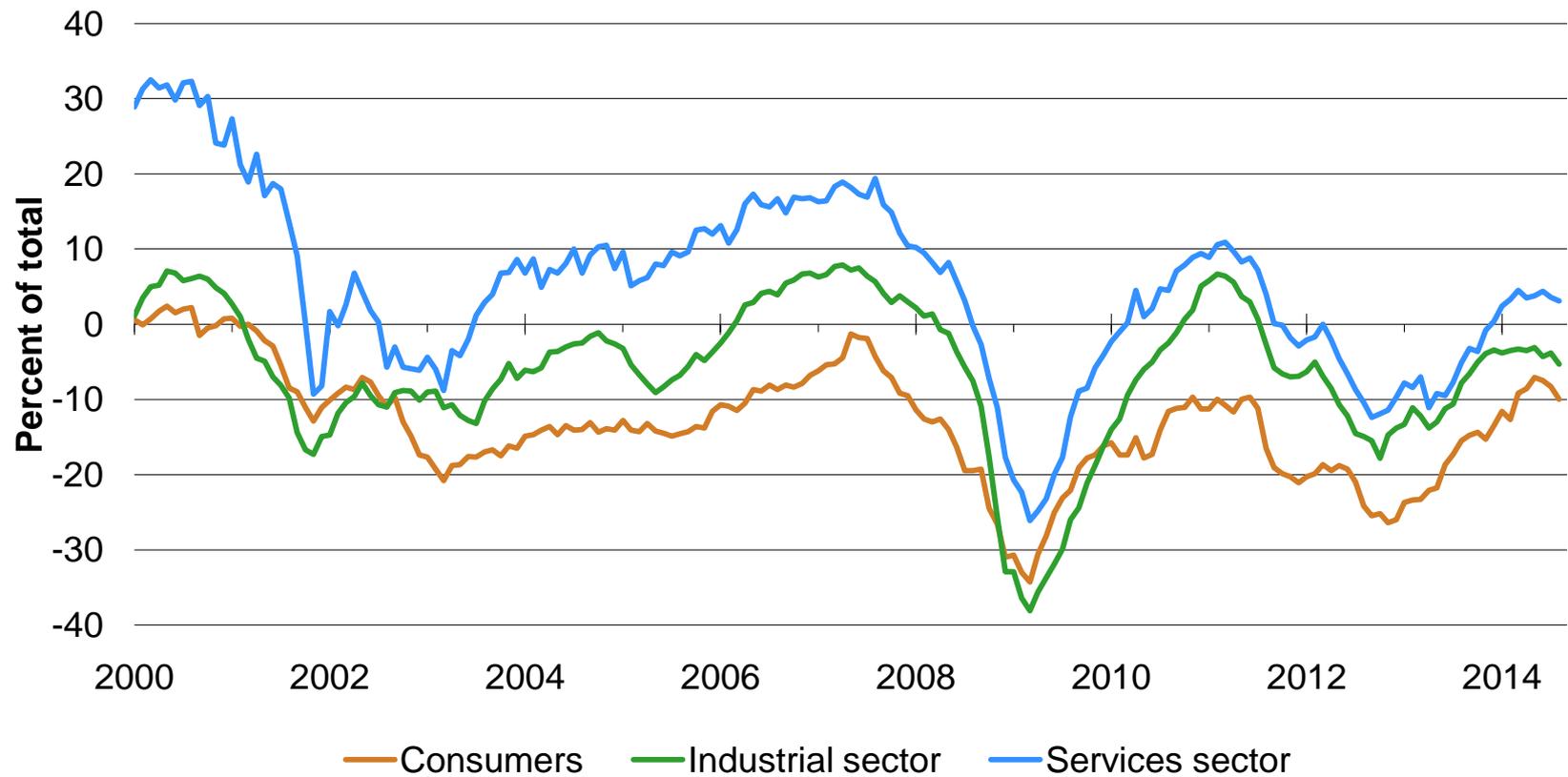


Western Europe has turned the corner, but risks of deflation are rising

- After a protracted recession, the Eurozone economy is growing again – though growth this year will only be around 0.8%.
- Rising consumer and business confidence, low interest rates, improving export markets, and pent-up demand for durables will support growth.
- Extended fiscal austerity, still-significant banking sector problems, and weak consumer finances will restrain growth in several countries.
- The United Kingdom, Ireland, Germany, and Sweden will lead the region's growth, while Italy, Spain, Greece, and Portugal will lag.
- The European Central Bank provided some stimulus in June and again in September and could do more—but falling inflation is becoming a bigger risk (there is already deflation in Italy, Spain, Greece, Portugal, Cyprus and Slovakia), pushing up real interest rates and the euro.
- Western Europe is vulnerable to a further escalation of the crisis in Ukraine.
- **Risks:** deflation, Japan-style stagnation; ongoing credit crunch; social unrest.

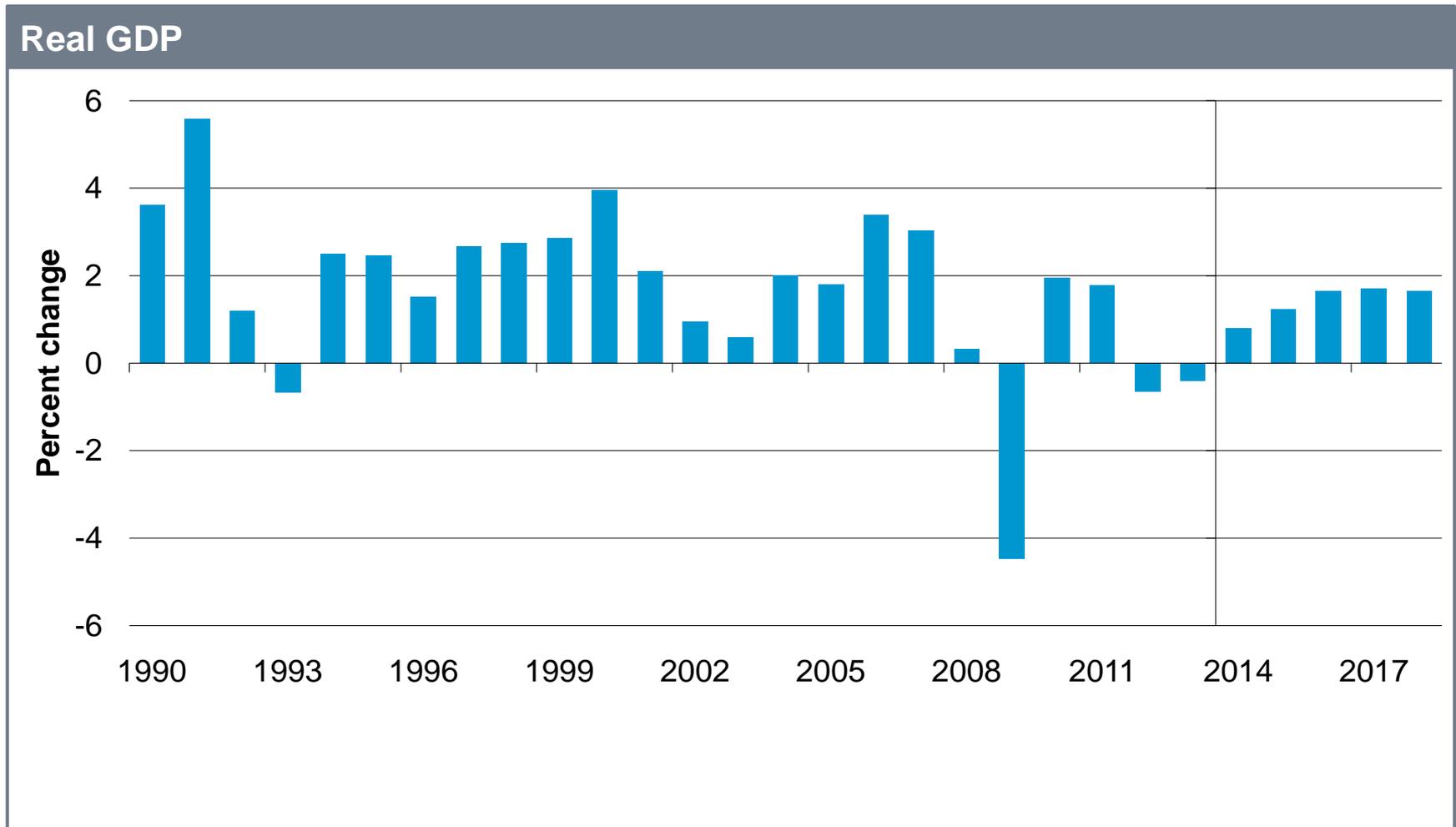
Eurozone confidence indexes are rising

Positive replies minus negative replies

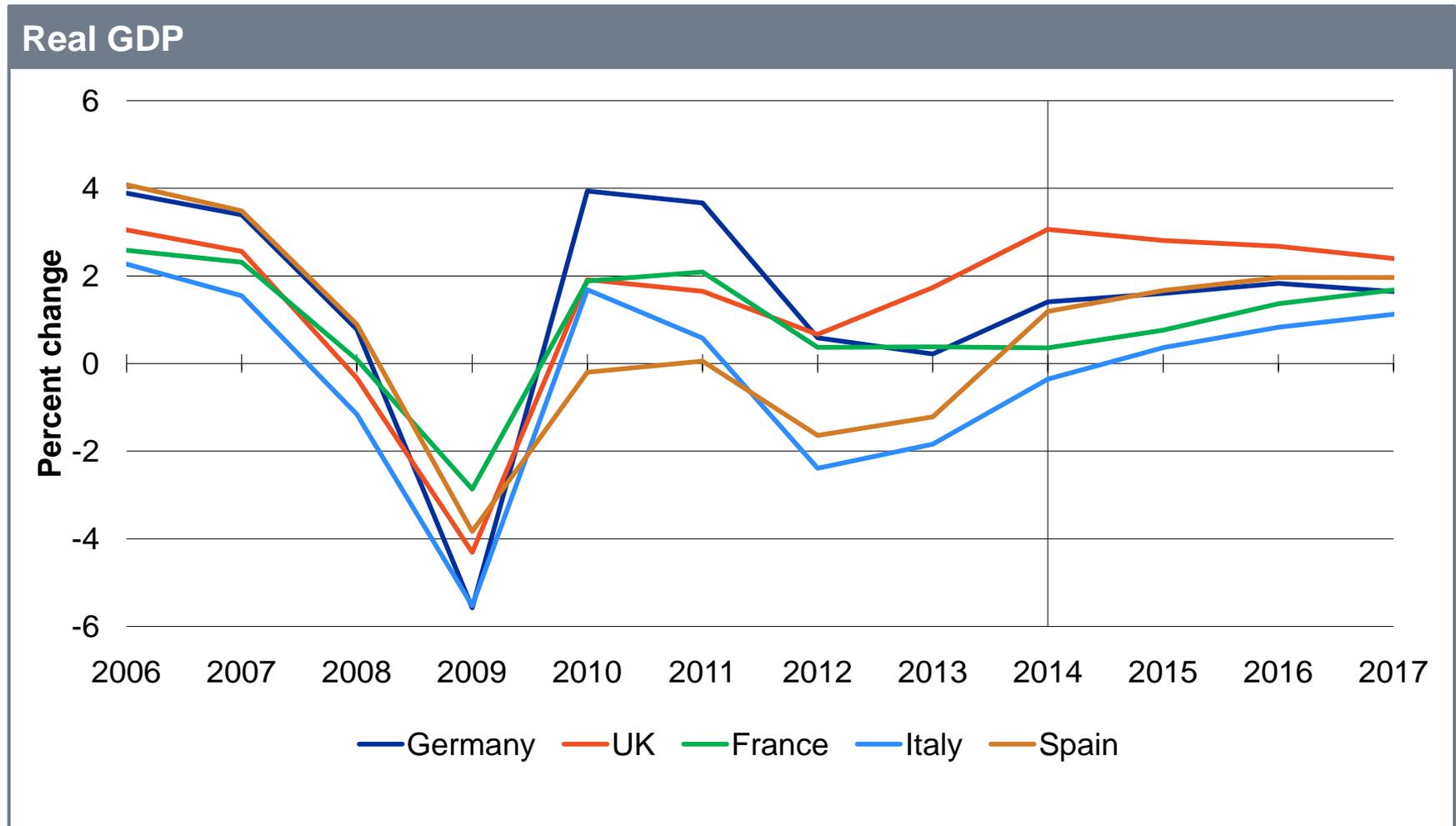


Source: European Commission

The Eurozone economy will slowly recover



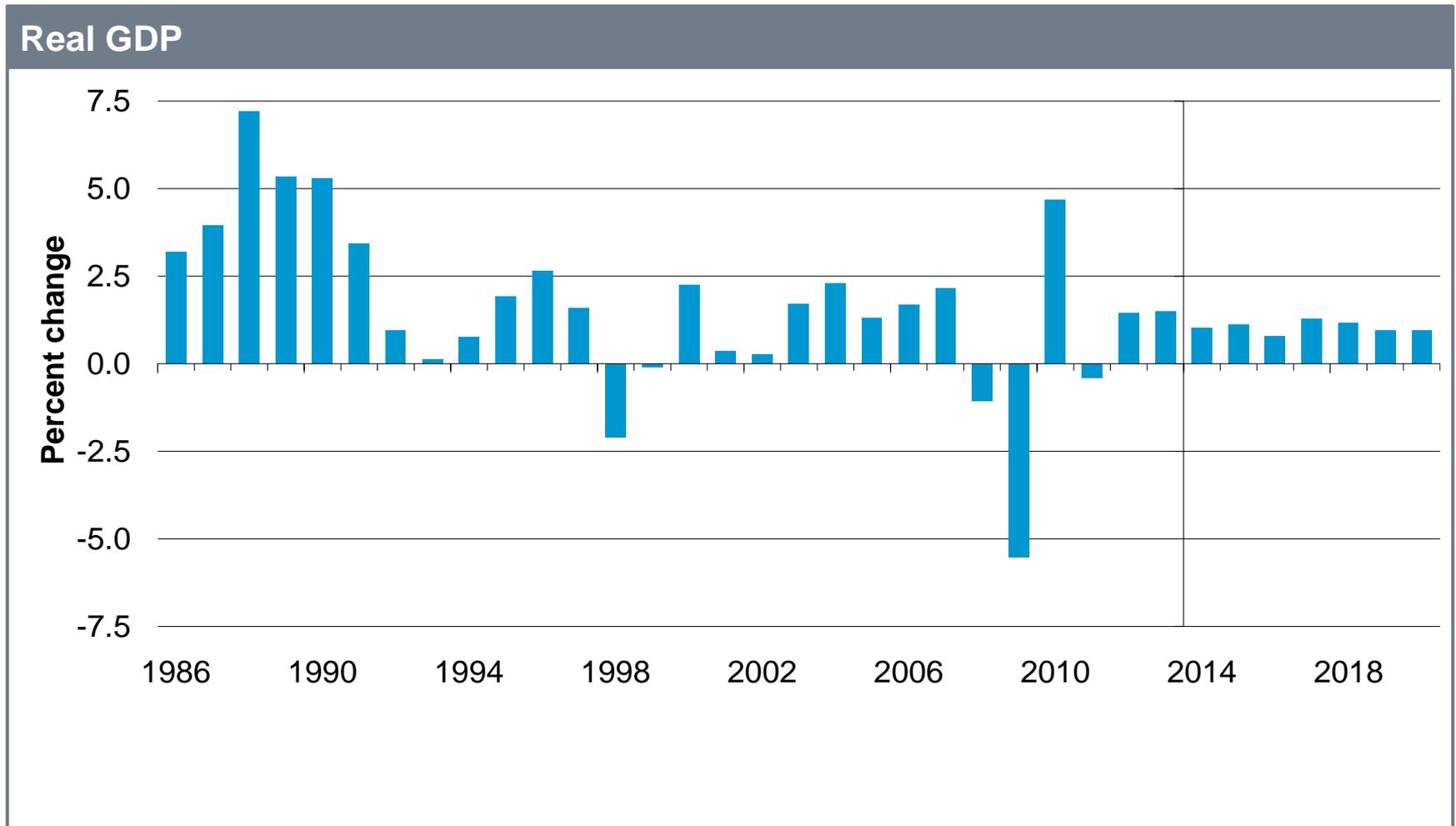
Real GDP growth in Europe's major economies



Japan's economy on a better but sluggish growth path

- The sales tax increase from 5% to 8% in April is creating economic volatility: After a surge in the first quarter, consumer spending fell in the second.
- IHS expects 1.1% growth this year and 1.2% in 2015.
- The Bank of Japan's aggressive monetary stimulus and sales tax increases will spark consumer price inflation of 3% this year and 2% in 2015 – this spring the core CPI rose the fastest since 1991
- Future growth will depend on how effectively the new Abe administration implements stimulus programs and reforms in labor and product markets.
- The government and the Bank of Japan will likely provide more (temporary) stimulus to offset the next sales tax hike expected in October 2015.
- Yen depreciation and a recovery in exports have boosted the profits and capital expenditures of multinational companies.
- **Risks:** A declining and aging population limits Japan's long-term potential; the lack of structural reforms could also hurt growth; high debt levels (the highest in the world) may soon become a serious challenge.

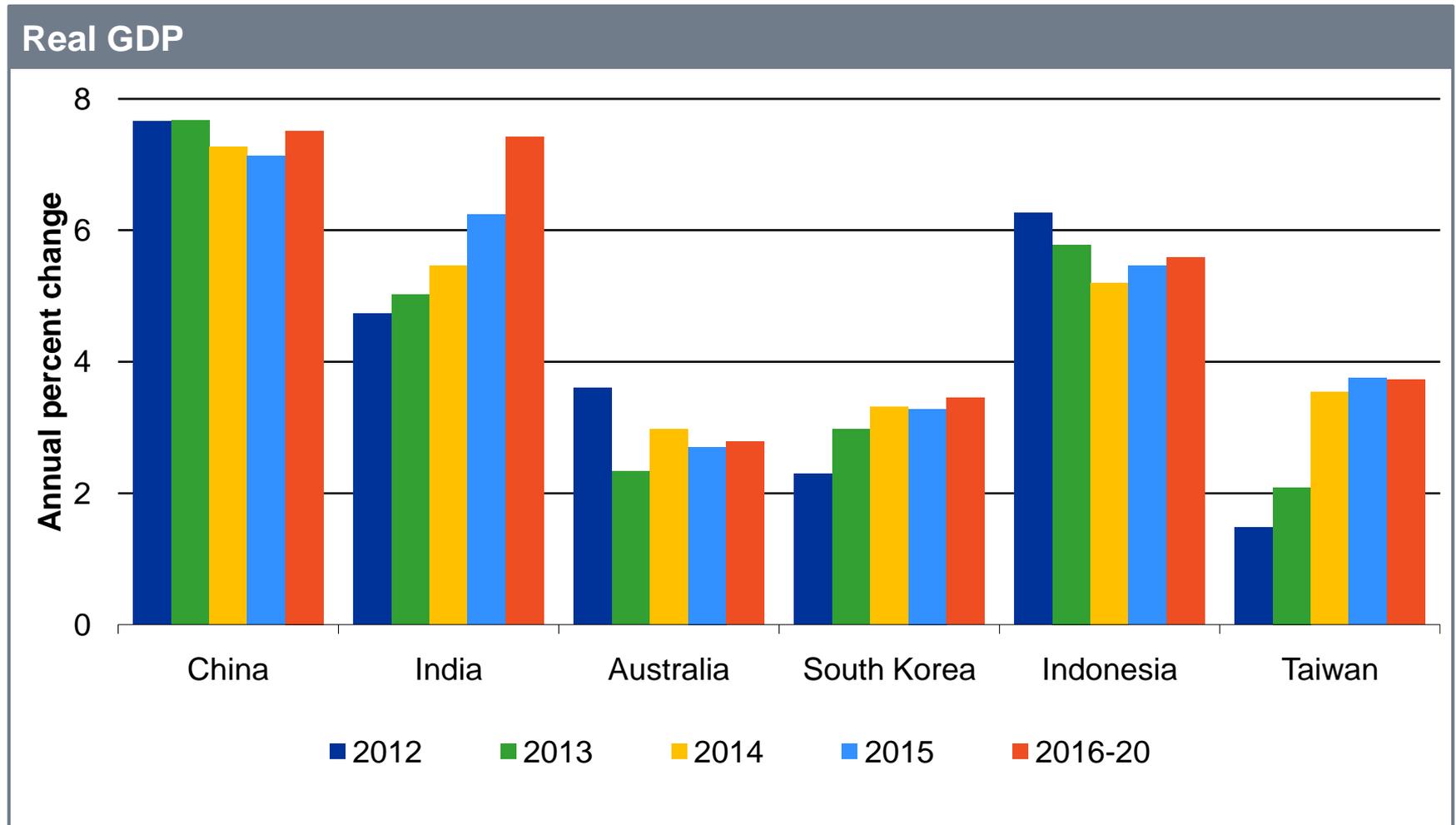
Japan's economy has limited growth potential



Asia-Pacific will achieve solid, not spectacular, growth

- Asia's performance will be shaped by political transitions and the pace of domestic macroeconomic reforms.
- India's economy is reviving, but the new BJP government has been slow to use its mandate to launch essential economic reforms.
- Indonesia's new government seems on track to enact reforms such as the reduction of fuel subsidies.
- Political turmoil and the military coup in Thailand are undermining economic performance and foreign investment in manufacturing.
- As the global economy improves, South Korea, Taiwan, and Vietnam will see faster growth, supported by rising high-tech exports.
- The region's outlook for consumer spending is bright, thanks to robust income growth and deepening financial markets.
- Risks include a China hard landing, slow progress on economic reforms, and territorial disputes in the South China Sea.

Real GDP growth in Asia-Pacific



China's economic growth is slowing and risks of a tougher scenario are rising

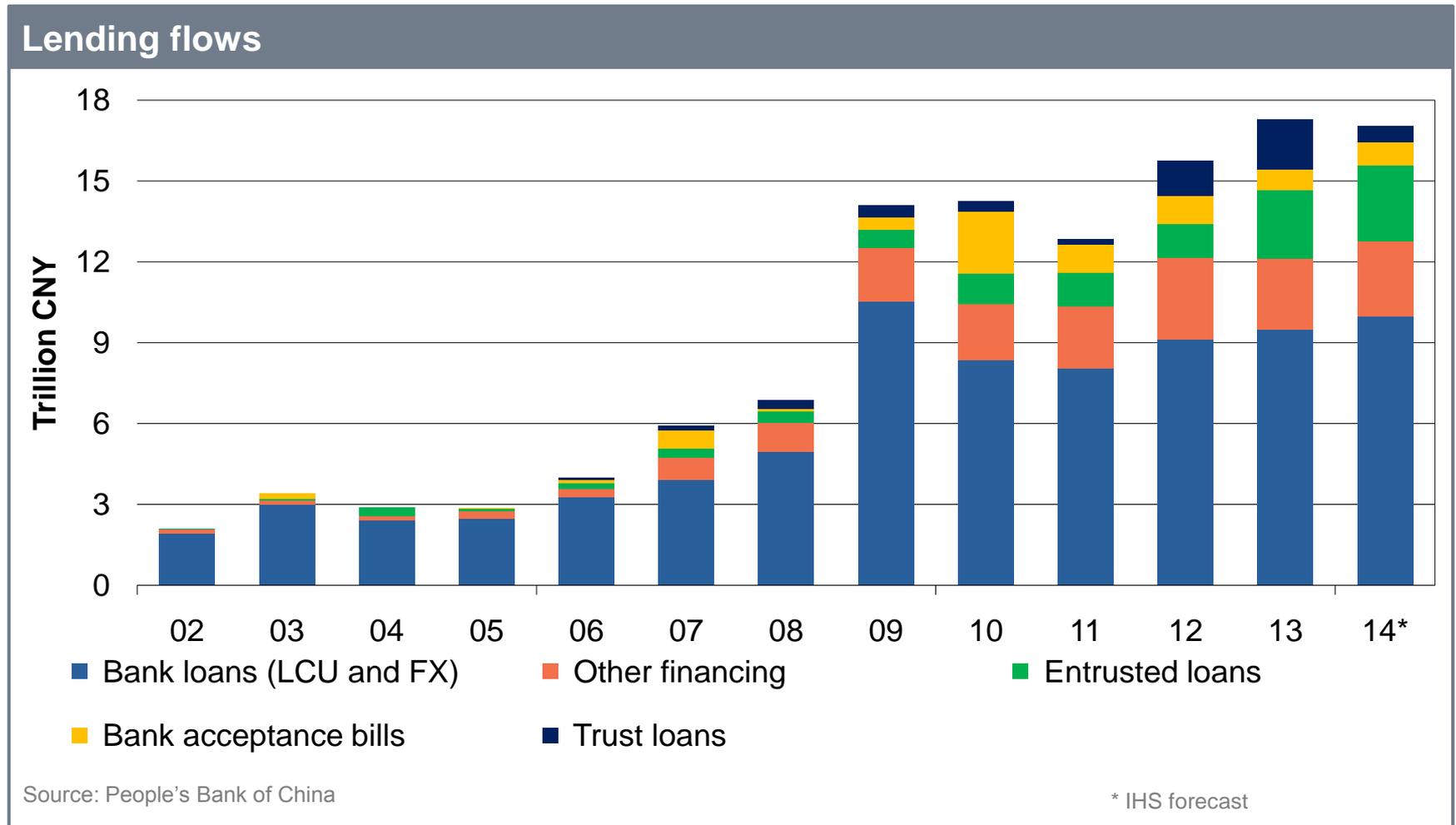
- Real GDP stabilized at 7.5% in the second quarter, but the real estate sector is in trouble.
- China has three interrelated problems: 1) a dramatic rise in debt levels; 2) an equally large rise in the role of shadow banks; and 3) a squandering of credit on property speculation, wasteful infrastructure, and excess capacity.
- No other country with a similar rise in debt has avoided either a crisis (unlikely in China's case) or much lower growth (one in three chance in the next five years).
- The rest of Asia and commodity-exporting emerging markets are most vulnerable to China.
- IHS now expects only 7.5% growth this year and 7.2% in 2015.
- Stimulus will be (is being) applied, selectively, to keep growth above 7%, including spending on railways, upgrades to low-income housing, and small-business tax cuts, as well as injections of liquidity by the central bank.

China's economic growth will downshift in the long run

Real GDP and industrial production



China's lending has stabilized at a high level



Key risks to the global economy

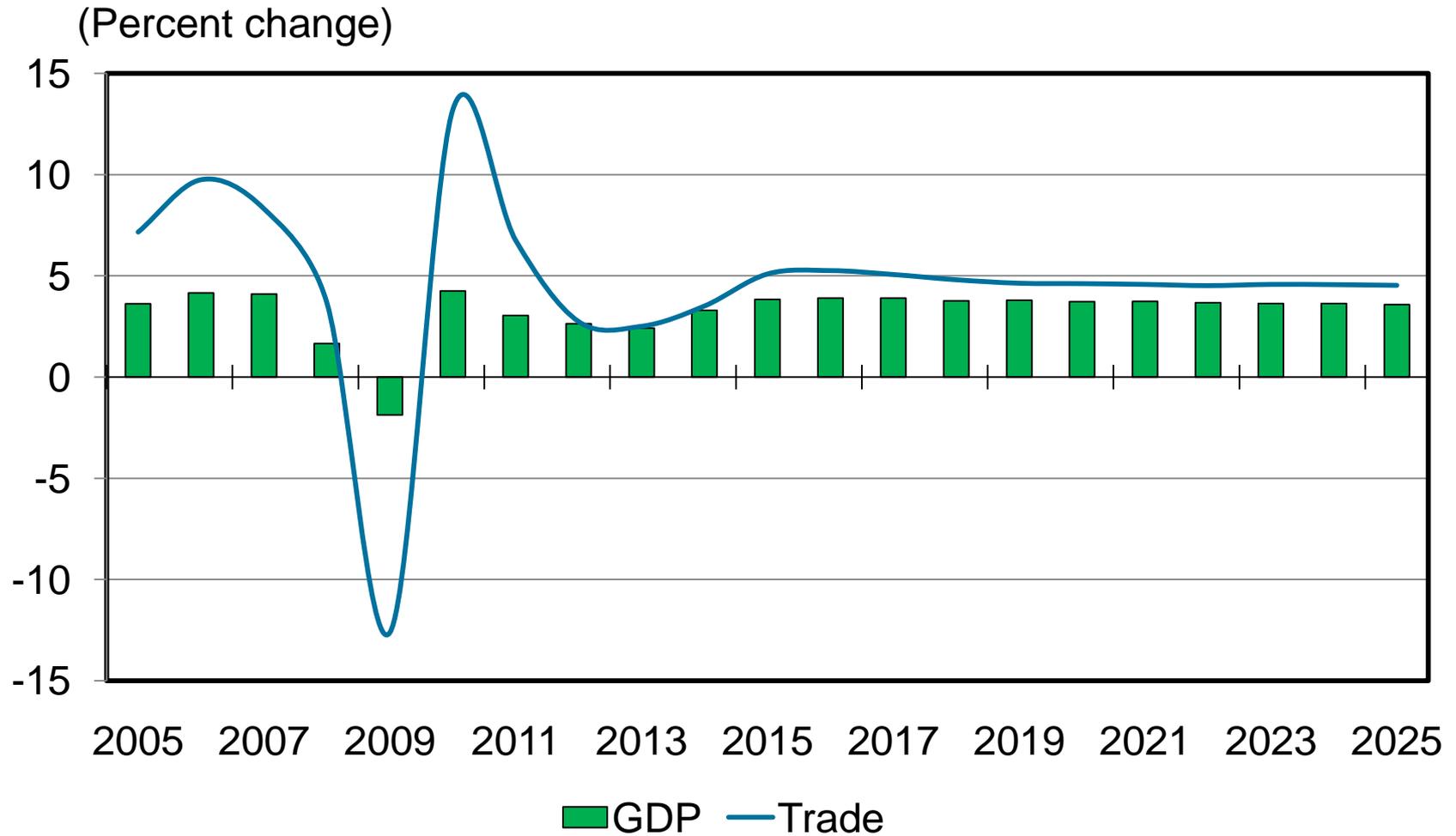
Risk	Signposts
China hard landing	<ul style="list-style-type: none"> • Loan defaults by developers and local governments trigger a banking crisis and a credit squeeze. • Real estate market bubbles burst. • The government responds with limited fiscal stimulus.
Eurozone setback	<ul style="list-style-type: none"> • Banking problems intensify, leading to a credit crunch. • Growth stalls and deflation sets in. • High unemployment leads to social unrest.
Energy price shock	<ul style="list-style-type: none"> • Conflicts in the Middle East and Africa lead to an oil supply disruption. Transportation is temporarily affected. • Oil prices soar initially, until markets adapt. • The Russia-Ukraine conflict cuts gas supplies to Europe.
US recovery stalls	<ul style="list-style-type: none"> • Businesses and households spend more cautiously. • Recoveries in housing and auto markets relapse.

Implications of global economic megatrends

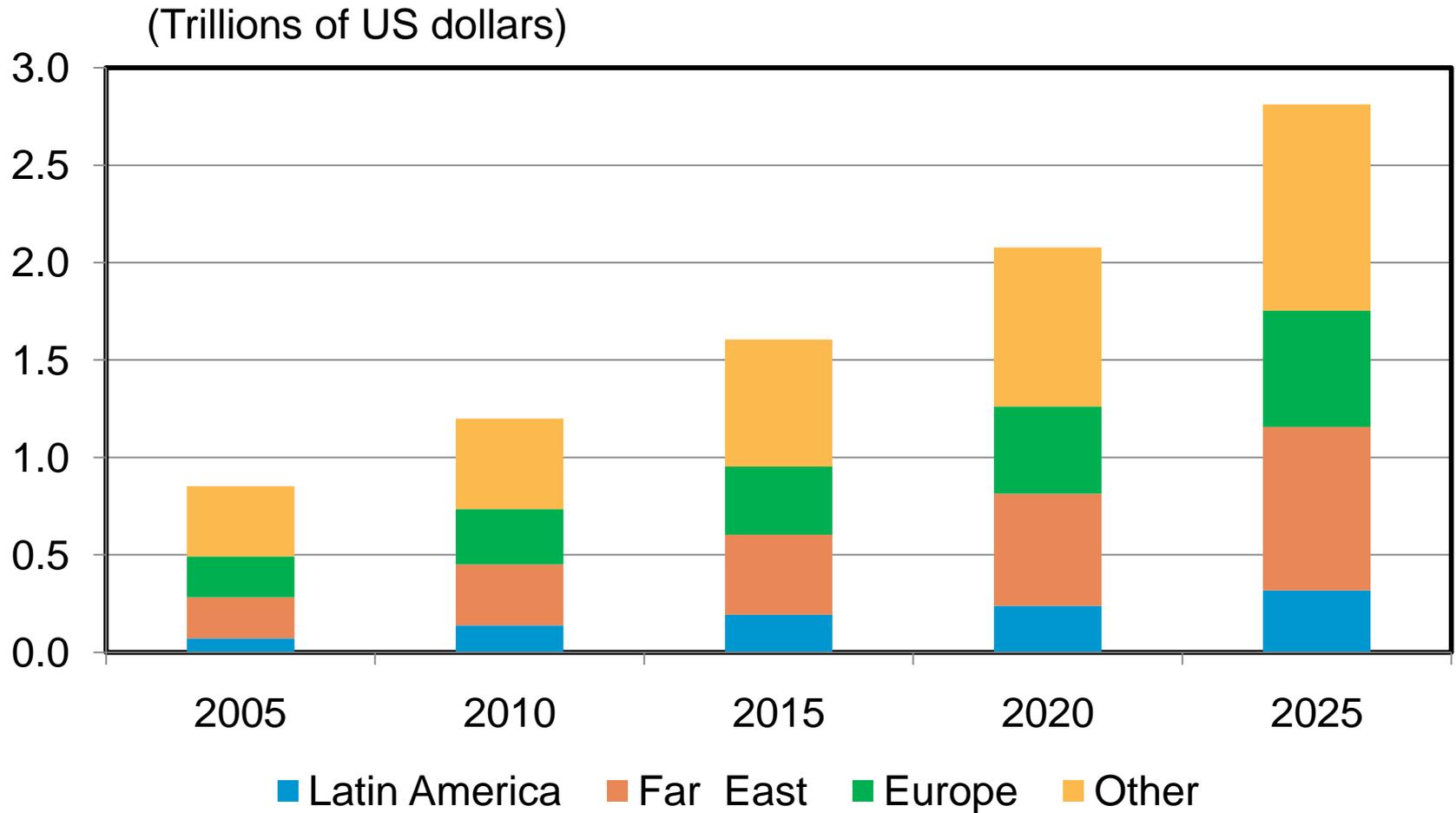
- Global growth will be more US-centric.
- Europe and Japan will do a little better, but not as well as the US.
- The sharp deceleration in emerging markets is worrisome, and a return to the boom years of the 2000s is unlikely—but another crisis is also unlikely.
- Emerging markets will not enjoy another resurgence without stronger productivity growth.
- China's locomotive role is diminishing.
- Russia is less of an economic threat to the United States than to Europe.
- Lower oil prices, more monetary stimulus, and more solid US growth will provide the foundations for a modest acceleration of global growth.

Trade outlook

World trade typically grows faster than real GDP

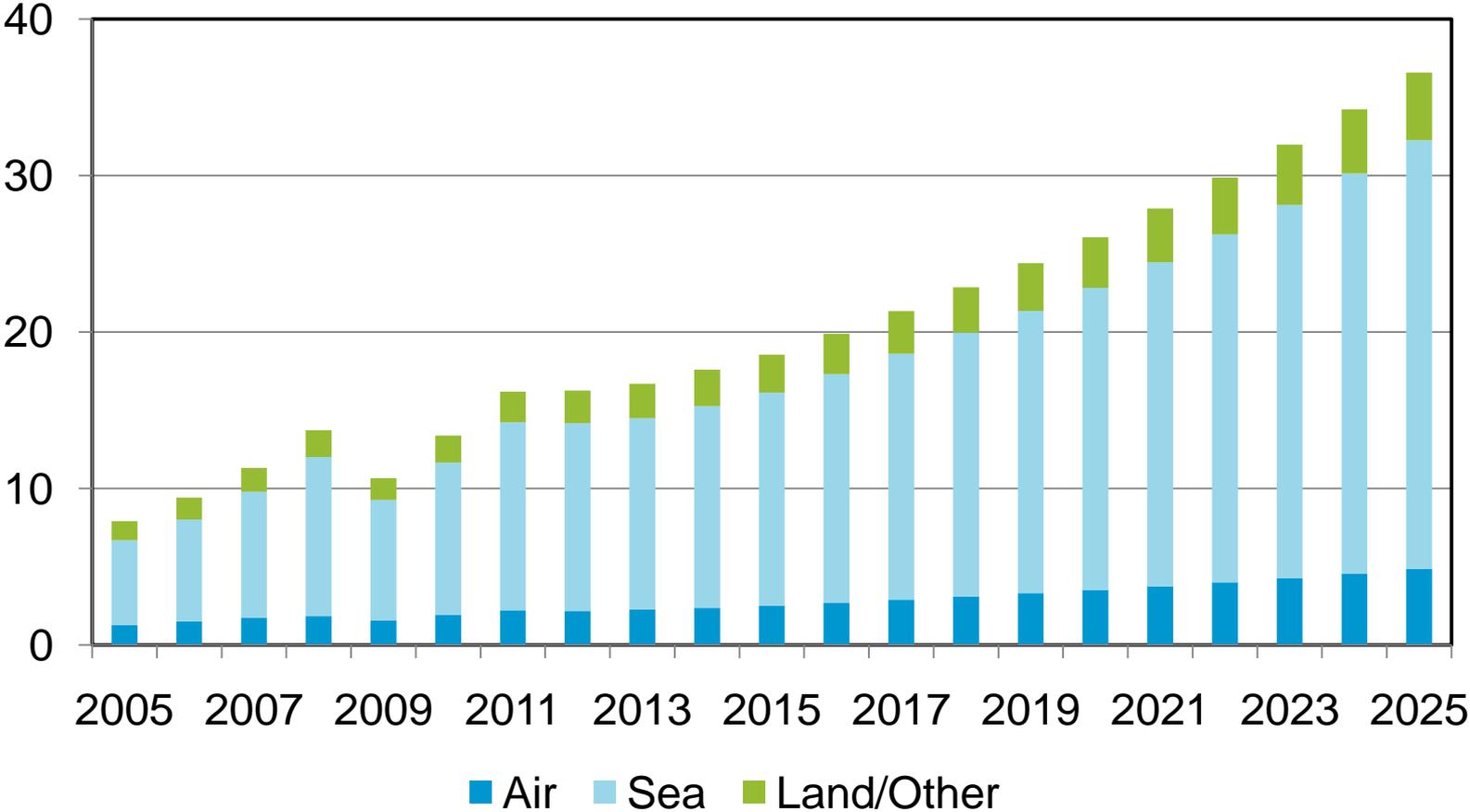


US exports by region



Growth in global merchandise trade

(Trillions of US dollars)



Note: Intra-Europe trade excluded

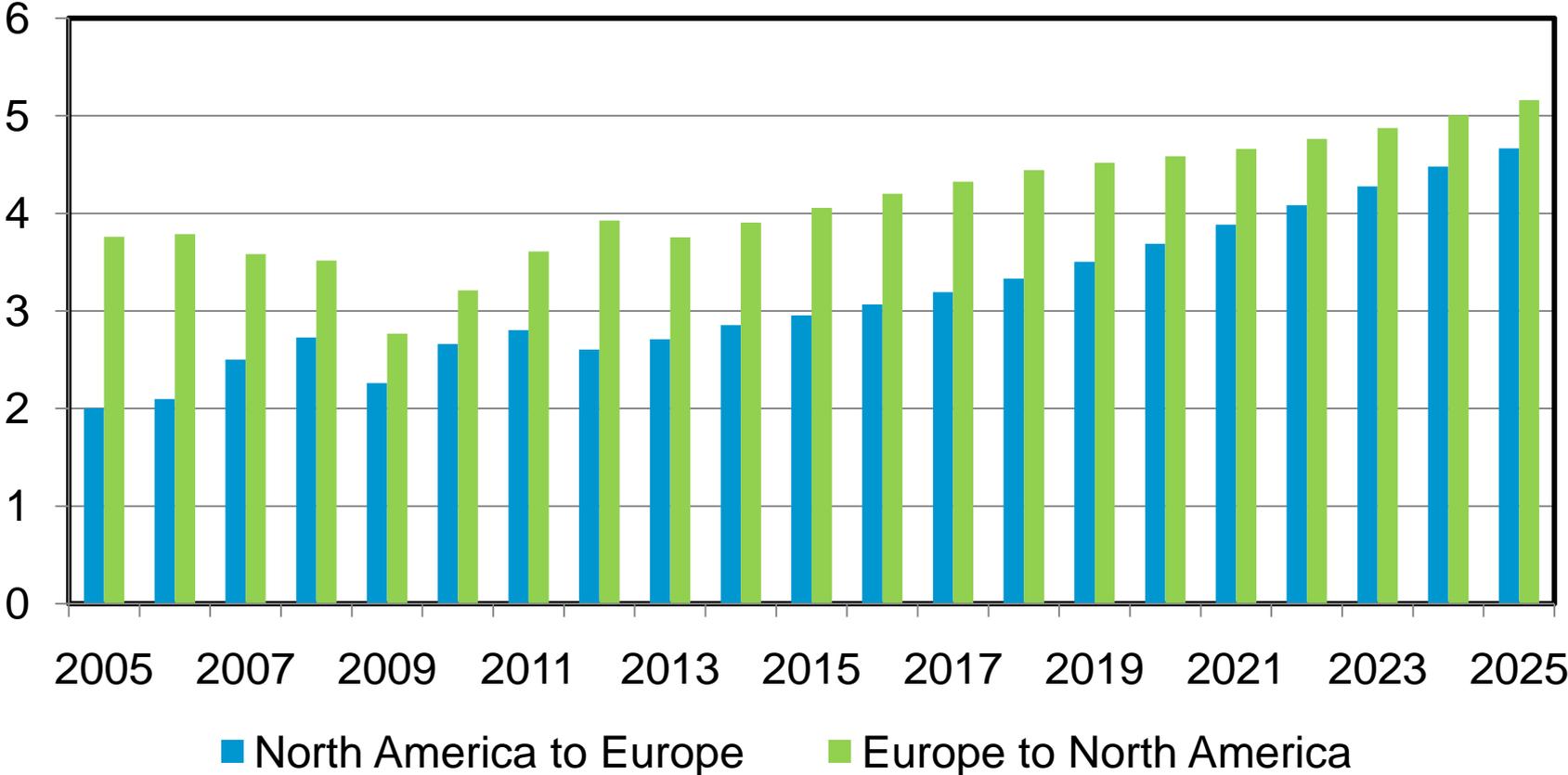
Containerized trade movements

(Thousands of TEUs)

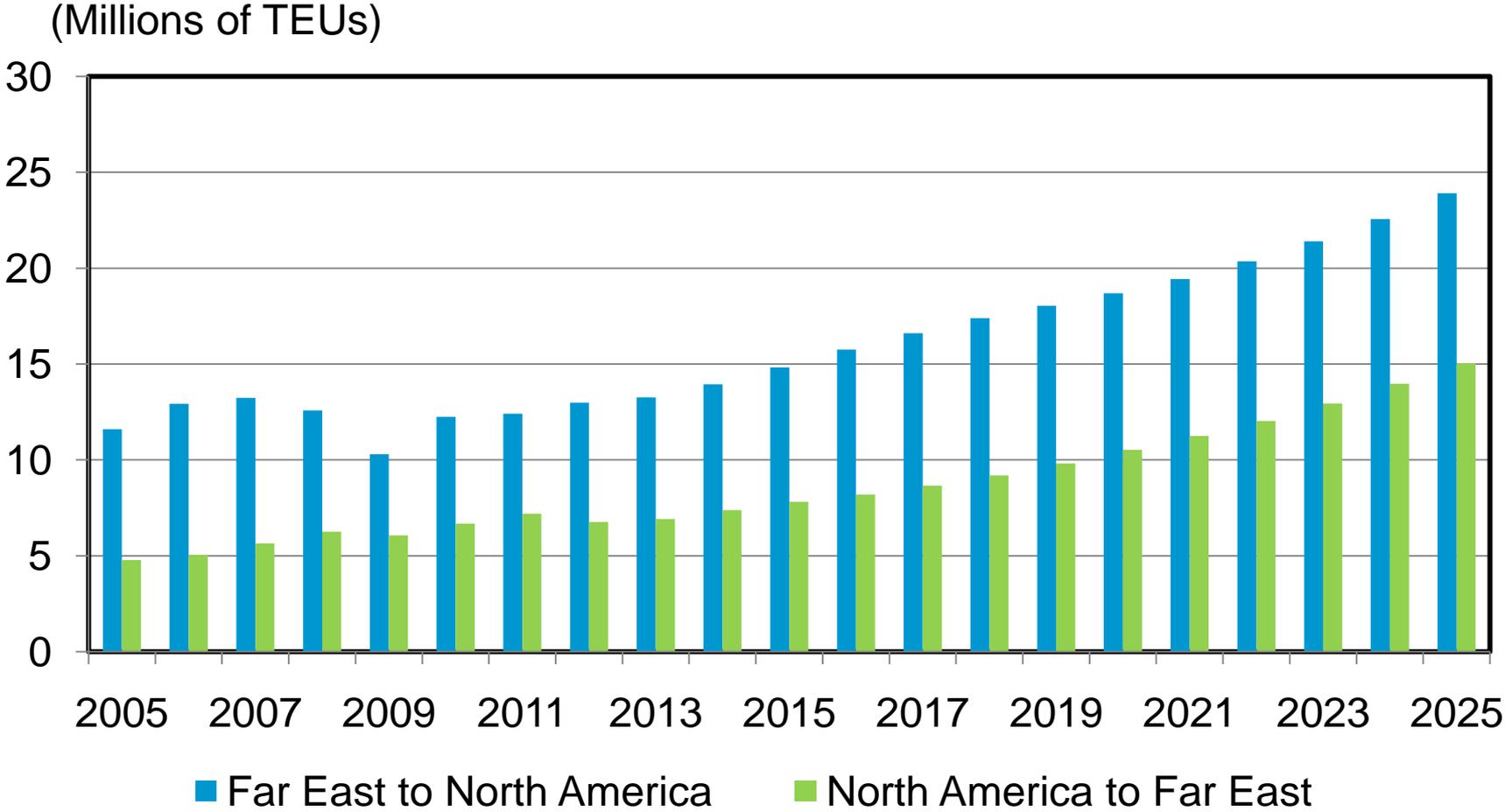
	2005	2010	2015	2020	2025
Transatlantic	5,764	5,874	7,010	8,274	9,826
Transpacific	16,366	18,926	22,654	29,211	38,941
U.S. Atlantic/Far East	3,545	4,787	5,675	7,322	9,857
Europe/Far East	12,902	18,489	21,705	28,101	36,732
Intra-Far East	18,281	22,539	28,393	38,170	50,313
World Total	84,874	110,561	135,508	175,916	228,081

Transatlantic container trade

(Millions of TEUs)

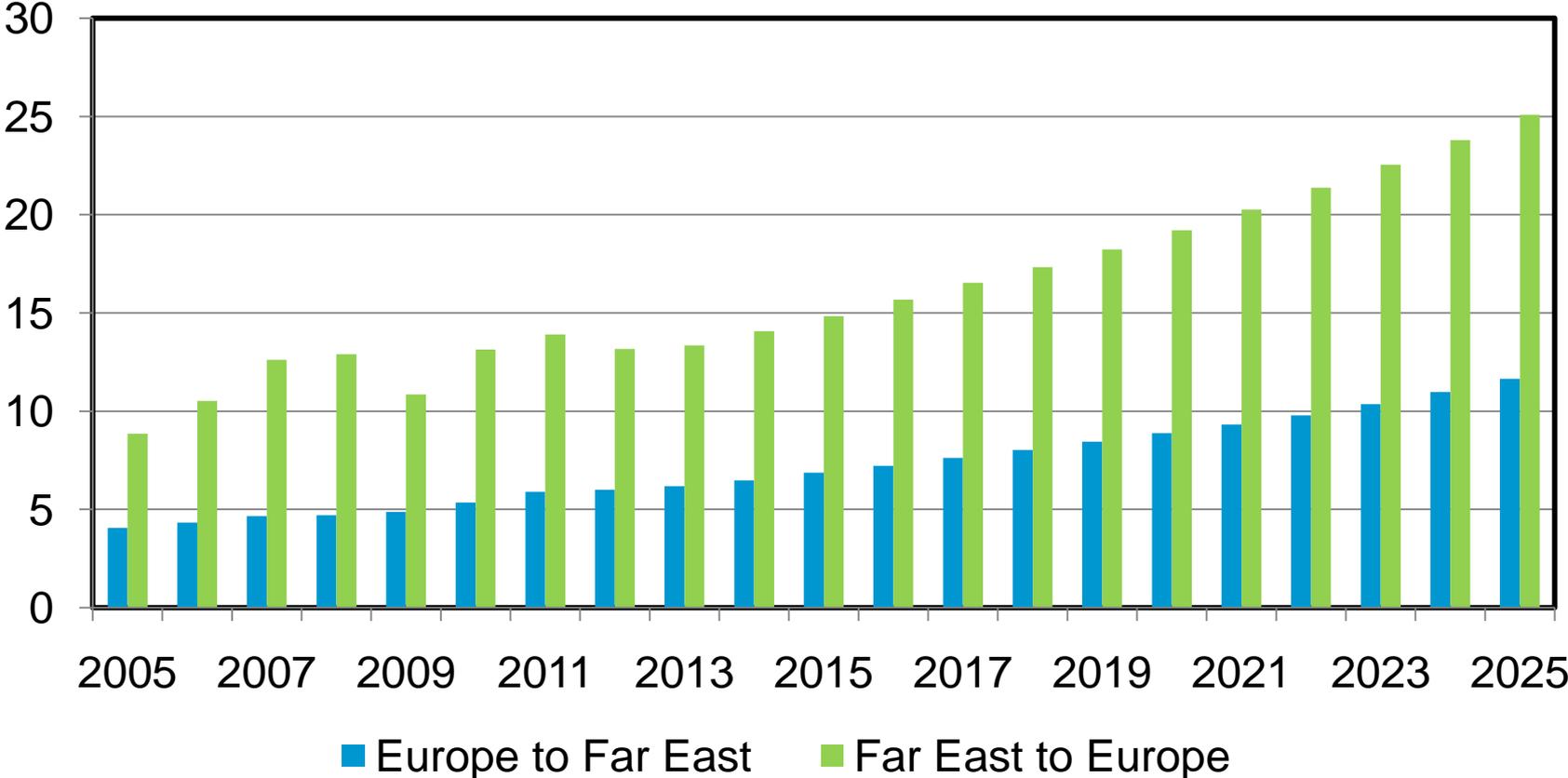


Transpacific container trade

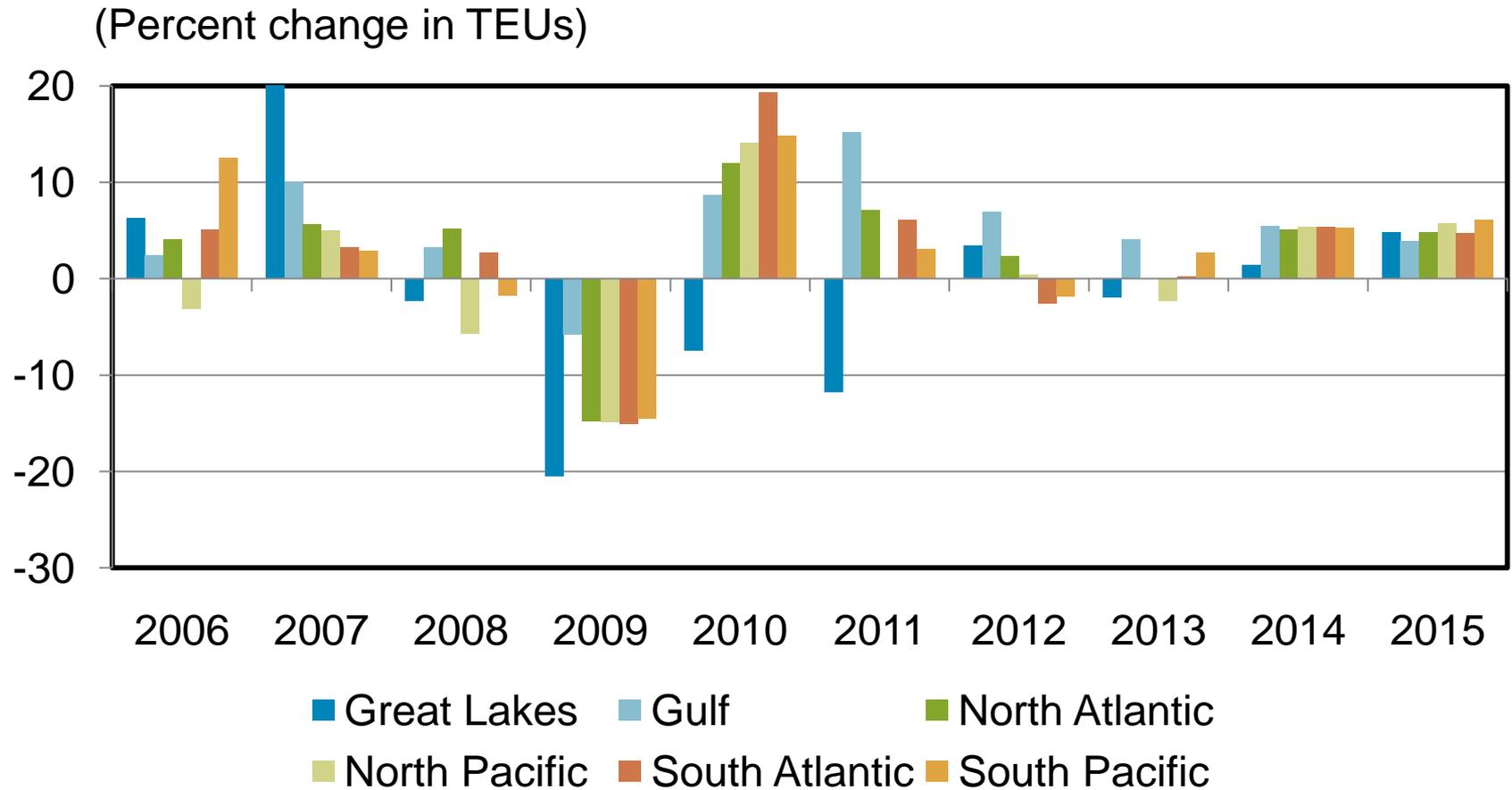


Europe-Far East container trade

(Millions of TEUs)



Container growth rates by US coast



Implications for the Port

- Trade will remain an engine of global growth in the long-term
- Global trade growth is recovering, but very slowly
- Transatlantic containerized trade contracted in 2013; in 2014, it is likely to expand moderately
- Over the next several years, U.S. Atlantic containerized trade annual growth rates are expected to be slower than the average growth rate in 2000-2010
- U.S. Atlantic/Far East containerized trade volumes will exceed Transatlantic containerized trade volumes around 2025
- Intra-Far East containerized trade will grow faster than Transatlantic, Transpacific, and Europe/Far East trade over the next several years
- Downside risks to short-term trade projections remain high

Thank you!

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