



# The Global Economic Outlook

The “Dull Old” Economies Show Signs of Life, as the  
“Great Deceleration” of Emerging Markets Continues

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## Outline of presentation

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- Global outlook
- The developed economies to the rescue?
- What happened to emerging market growth?



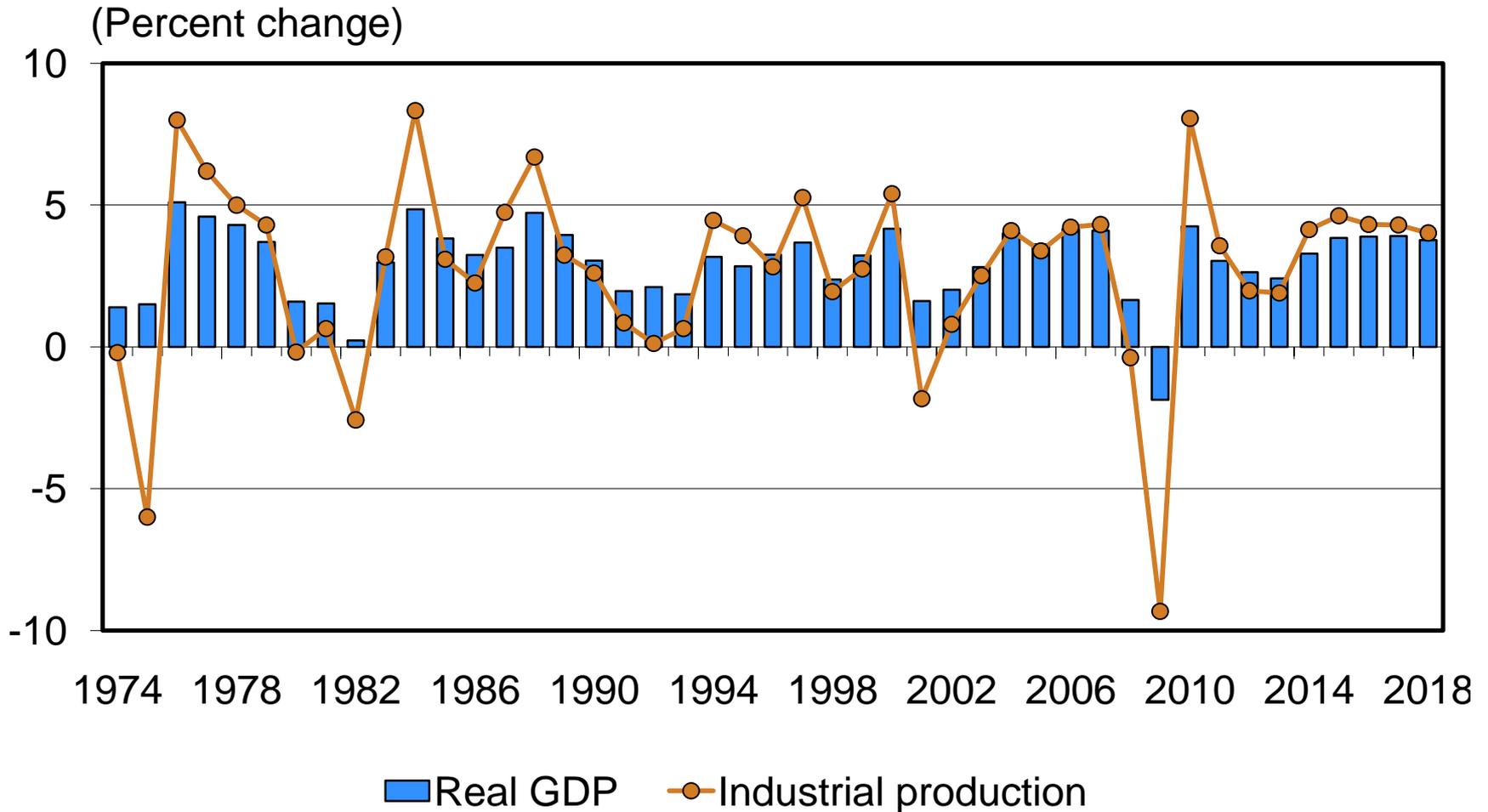
# Global Outlook

# The world economy: The “dull, old” economies will lead the way

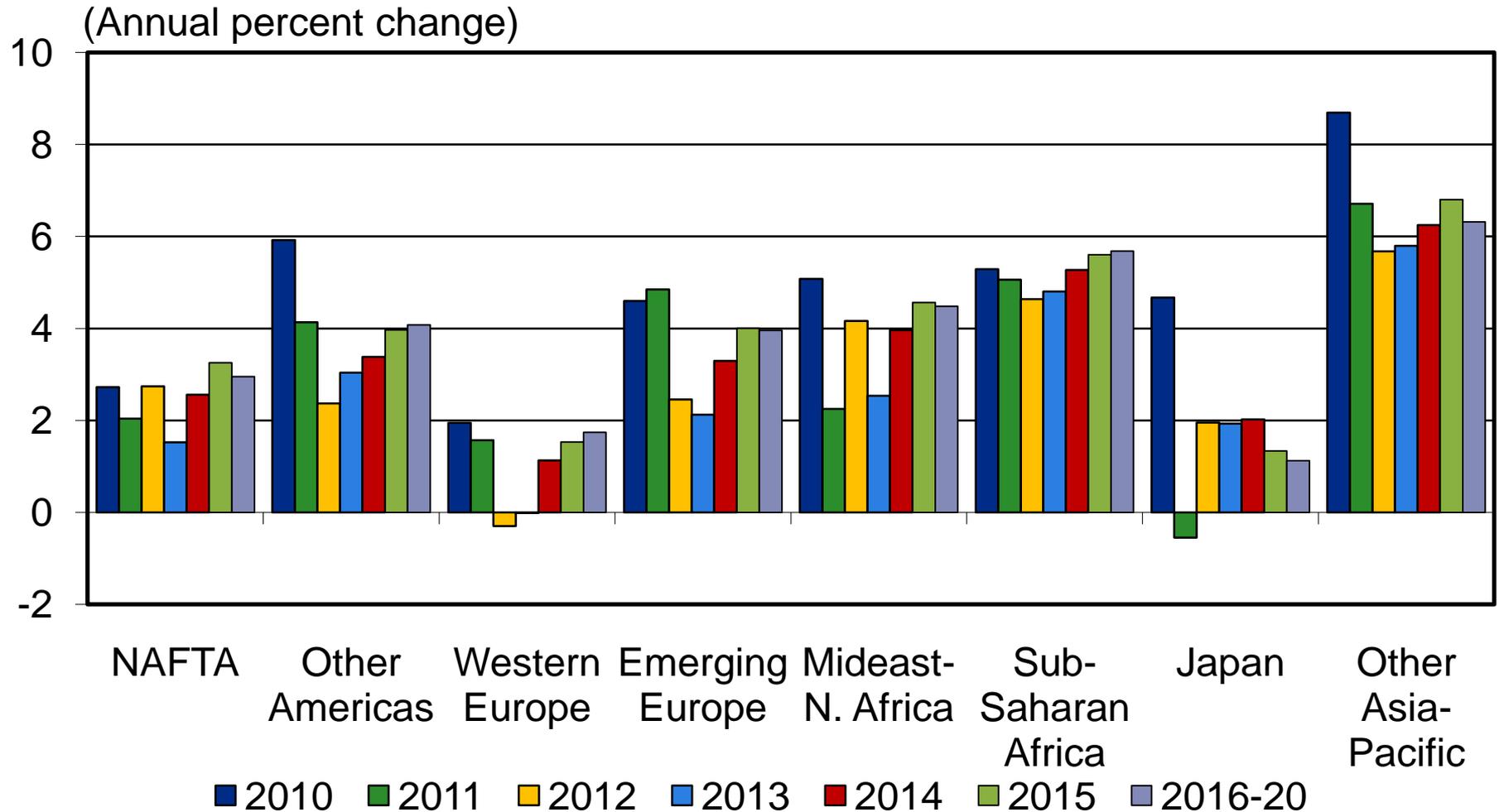


- The stage is still set for a modest acceleration in the latter part of this year and in 2014 – the “old and dull” economies will likely lead the way, as the headwinds of austerity and delevering fade
- Despite self-inflicted wounds from Washington, US growth is set to strengthen
- Europe has finally turned the corner, but the recovery is not broad-based
- Japan: A modest expansion is under way, thanks to aggressive policies
- China growth has stabilized, but major challenges lie ahead
- Emerging regions: Growth has weakened dramatically in some economies and there are no clear signs of a strong rebound yet – the recent financial market turmoil is hurting some countries more than others
- Commodity prices are moving sideways – except for oil, which is being buffeted by geopolitical forces
- Inflation and interest rates remain low – except in some developing economies
- Some emerging market currencies have been hammered

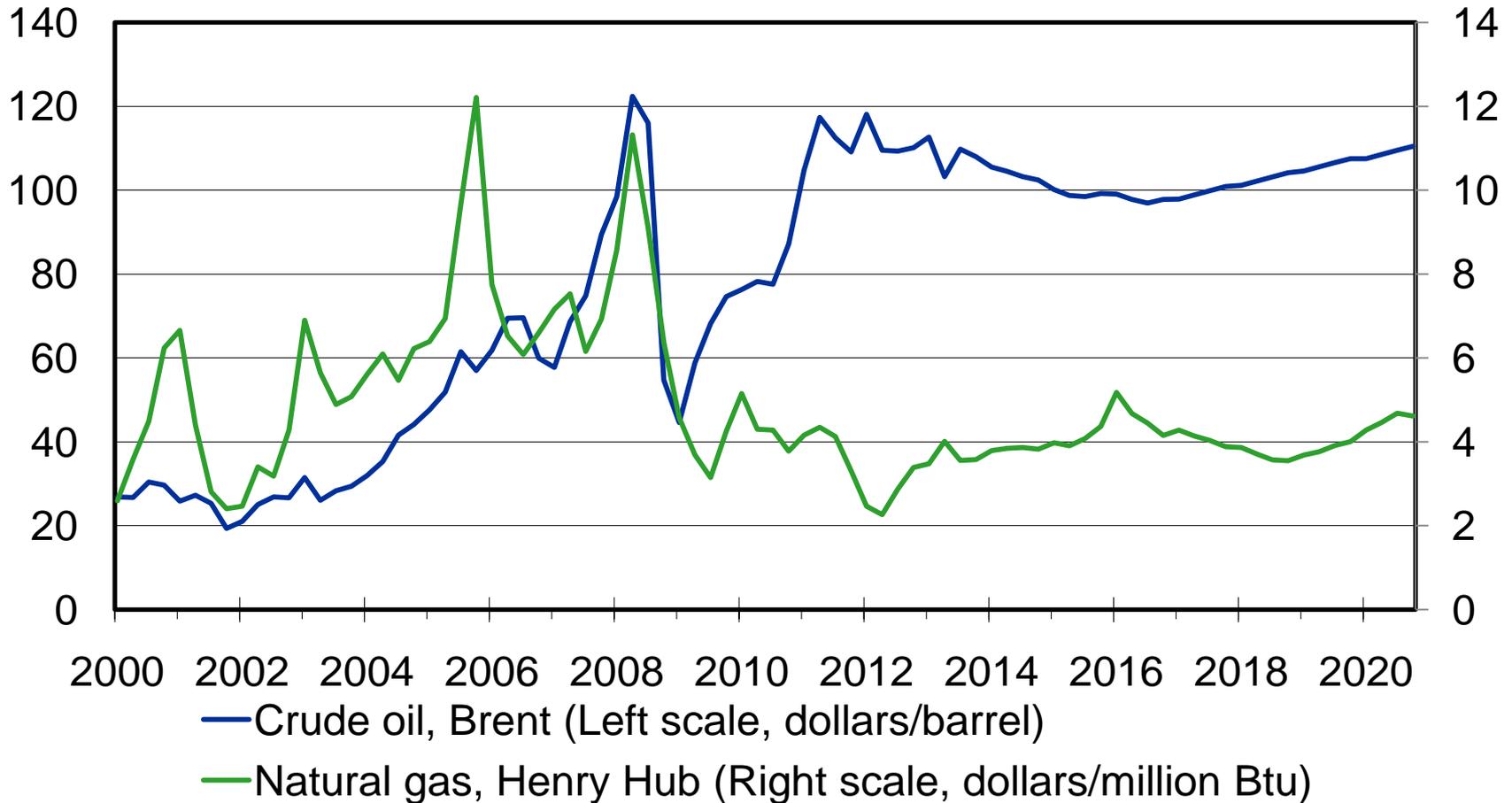
# A soft patch in the world's economic expansion



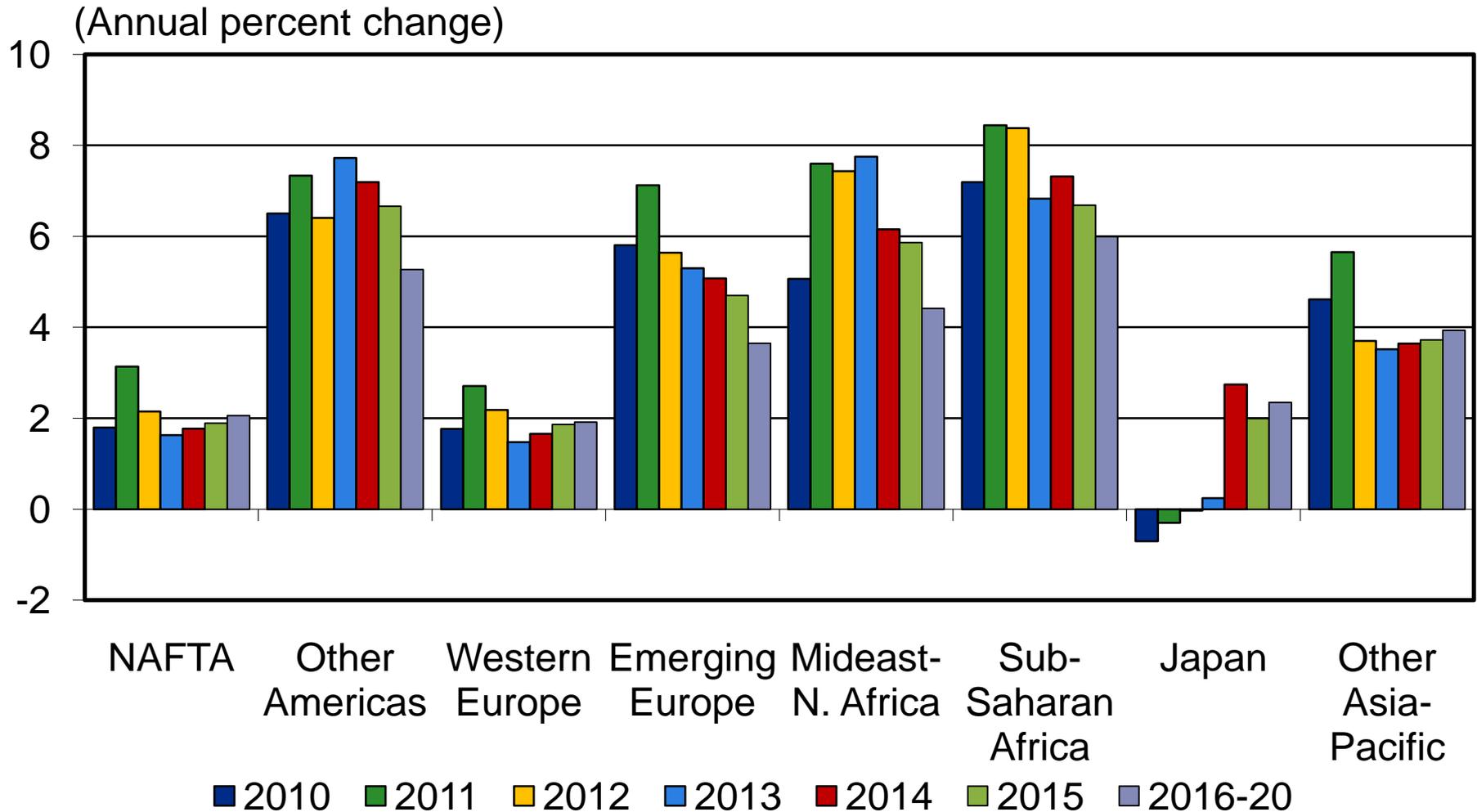
# Real GDP growth by region



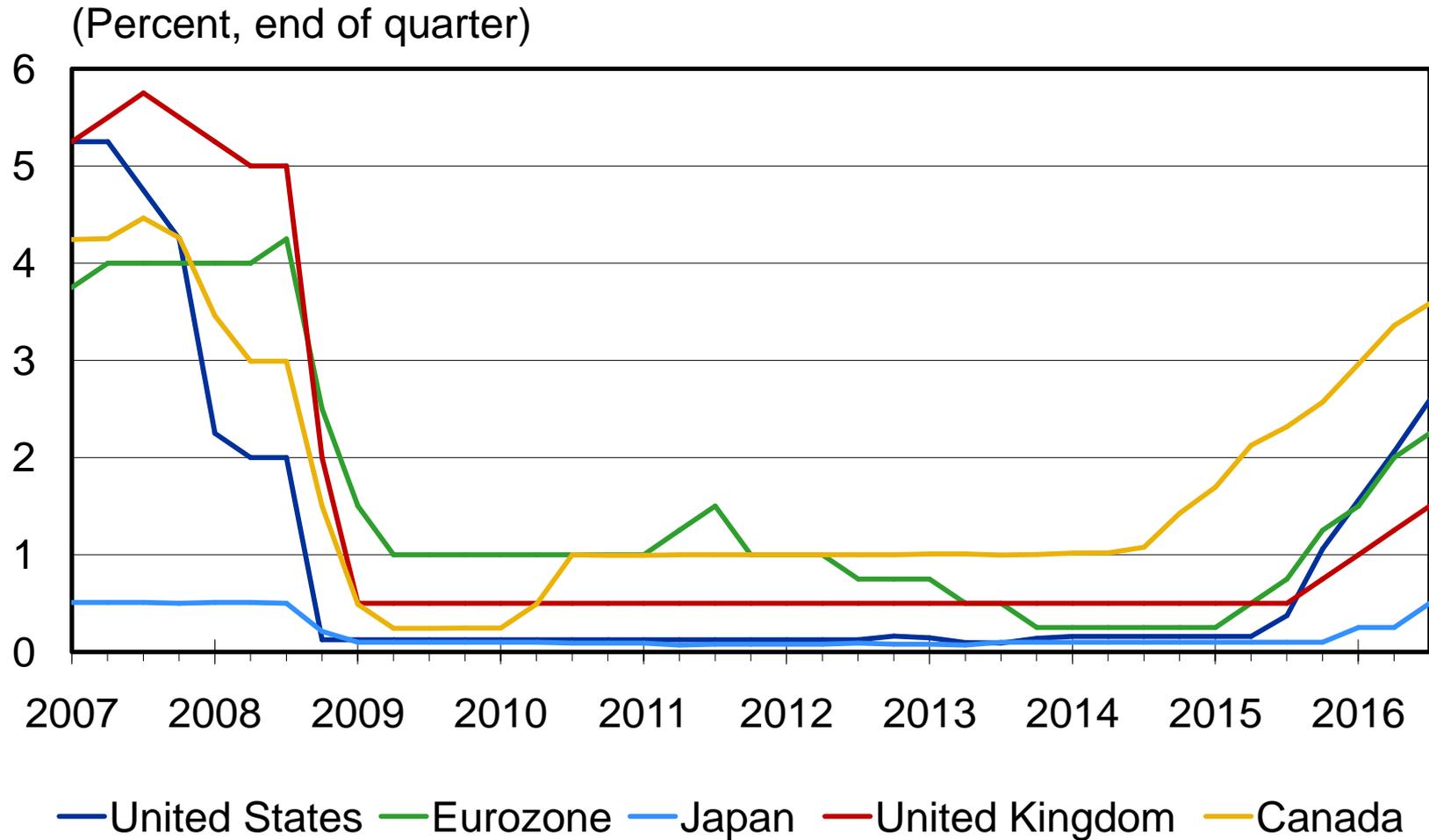
# Crude oil and natural gas prices take different paths



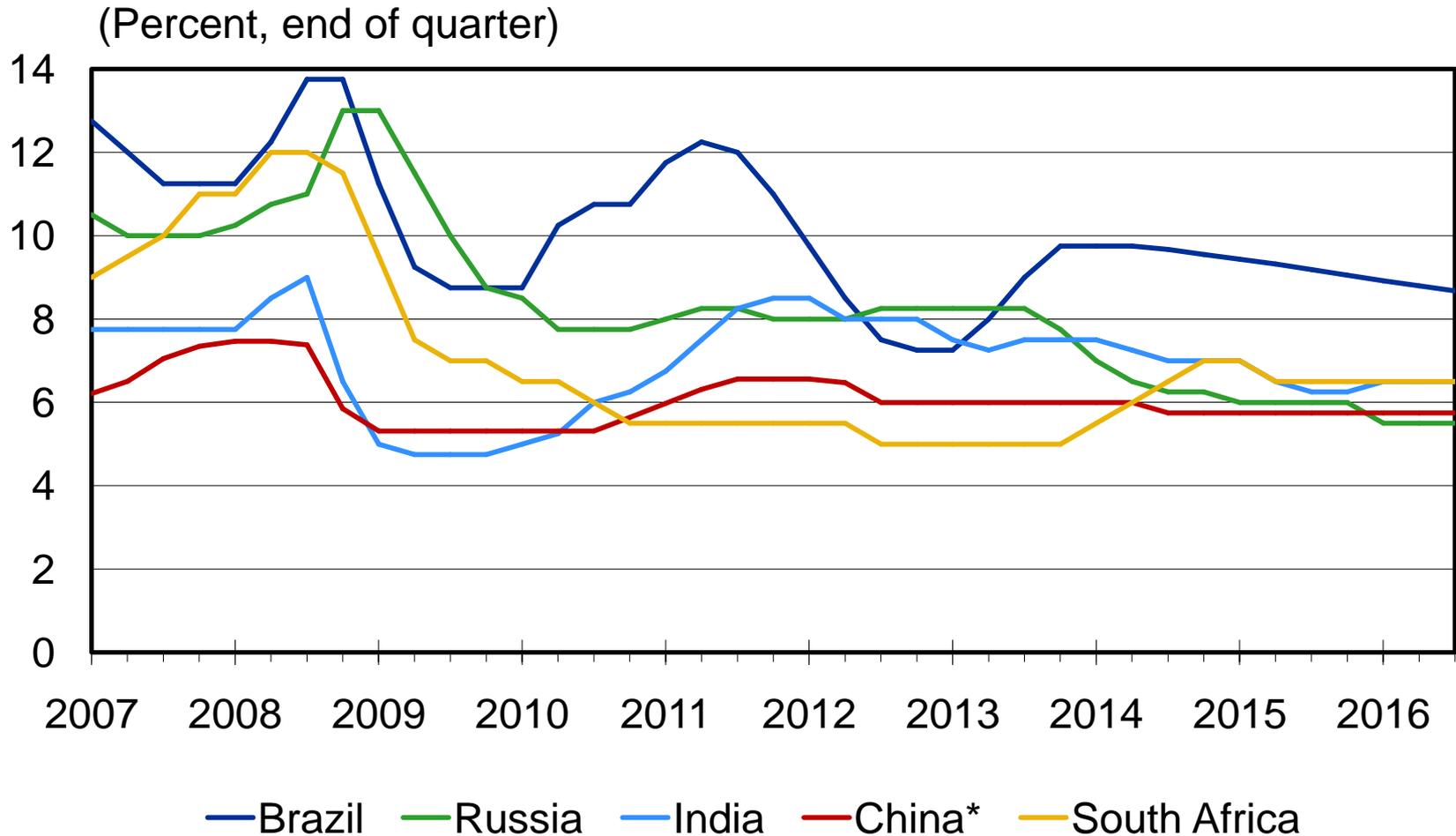
# Consumer price inflation by region: Mostly tame



# Policy interest rates in the advanced countries will stay low for at least another year



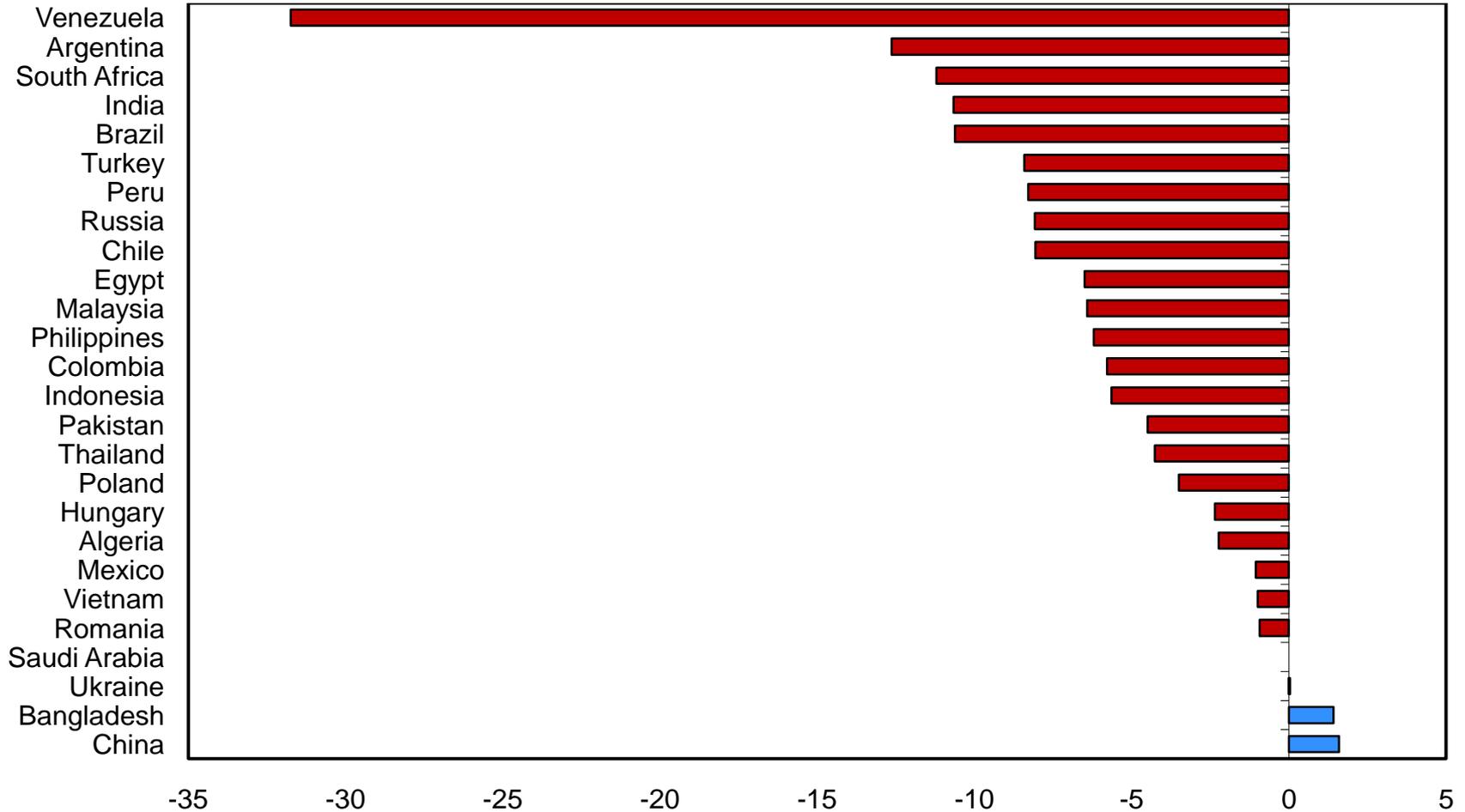
# Policy interest rates in emerging markets – rising again



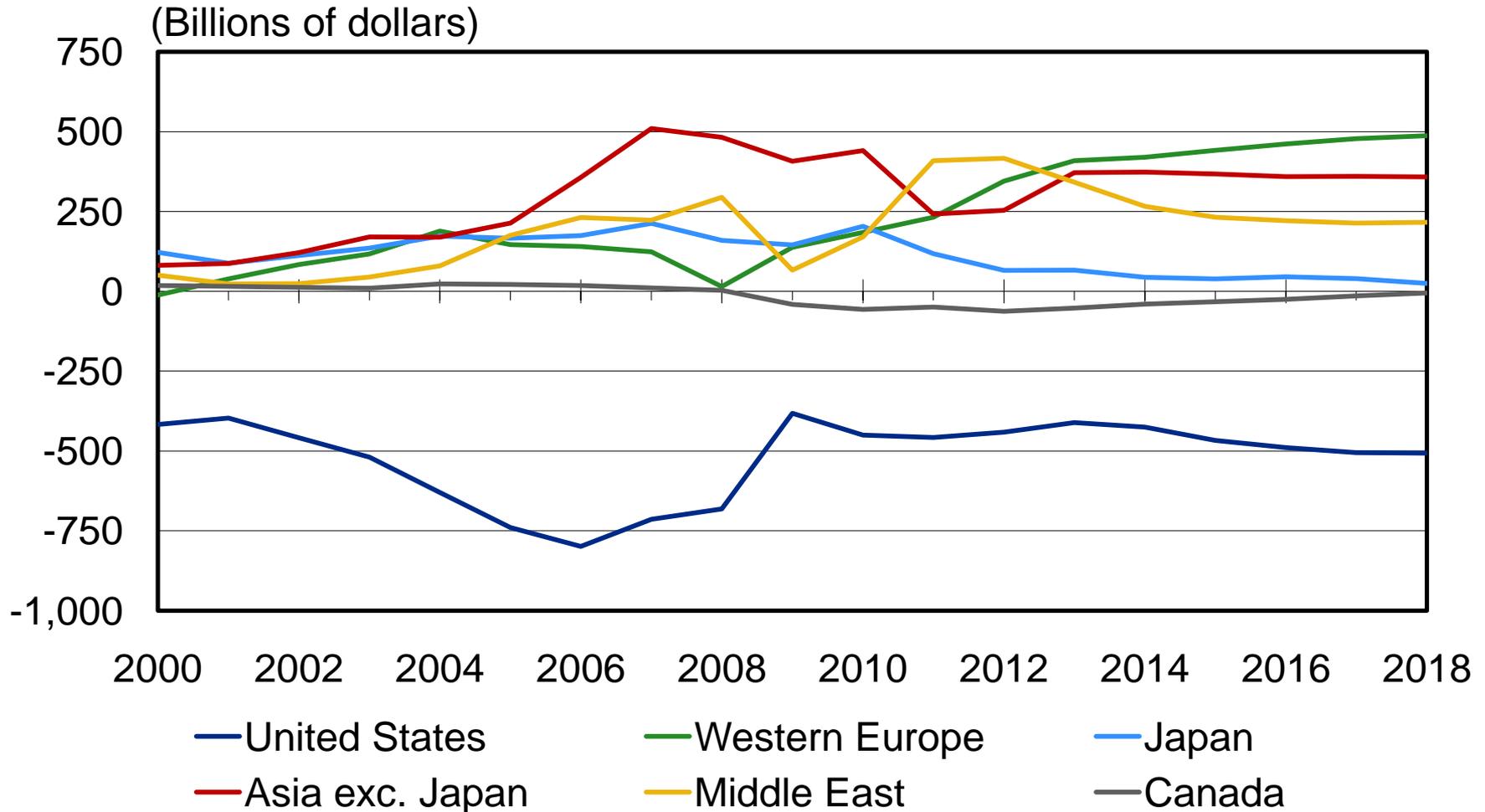
\* One-year loan rate

# Emerging markets currency panic

(January-August 2013, percent change, USD per local currency)



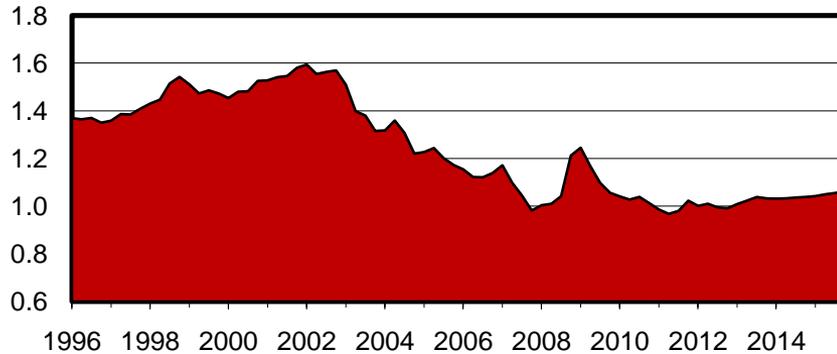
# Current-account imbalances – improving but still large



# Exchange rates per US dollar

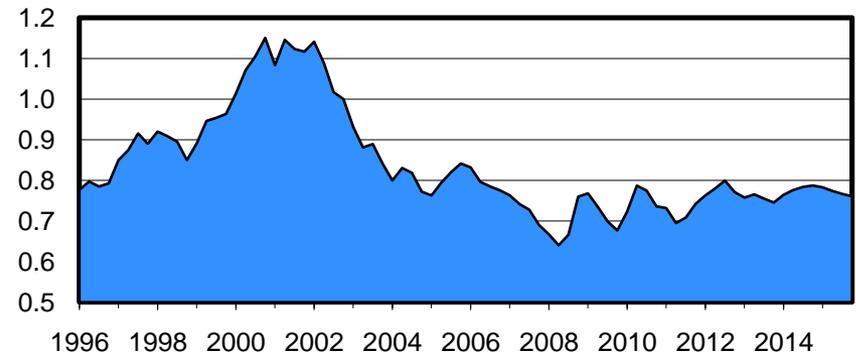
## Canadian dollar

(Canadian dollars per US dollar, quarterly averages)



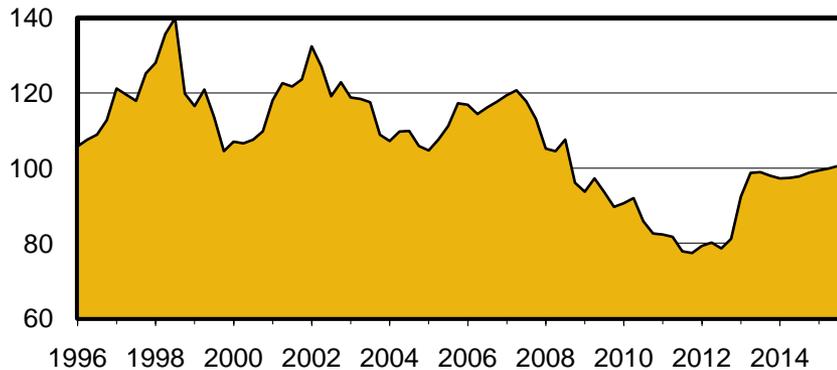
## Euro

(Euro per US dollar, quarterly averages)



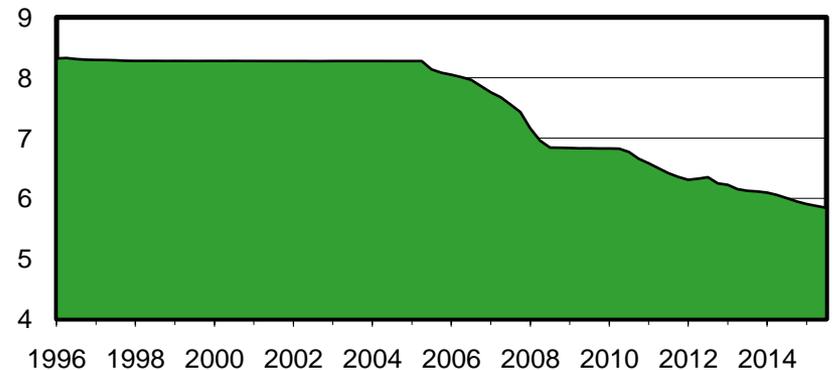
## Japanese yen

(Yen per US dollar, quarterly averages)



## Chinese renminbi

(Yuan per US dollar, quarterly averages)



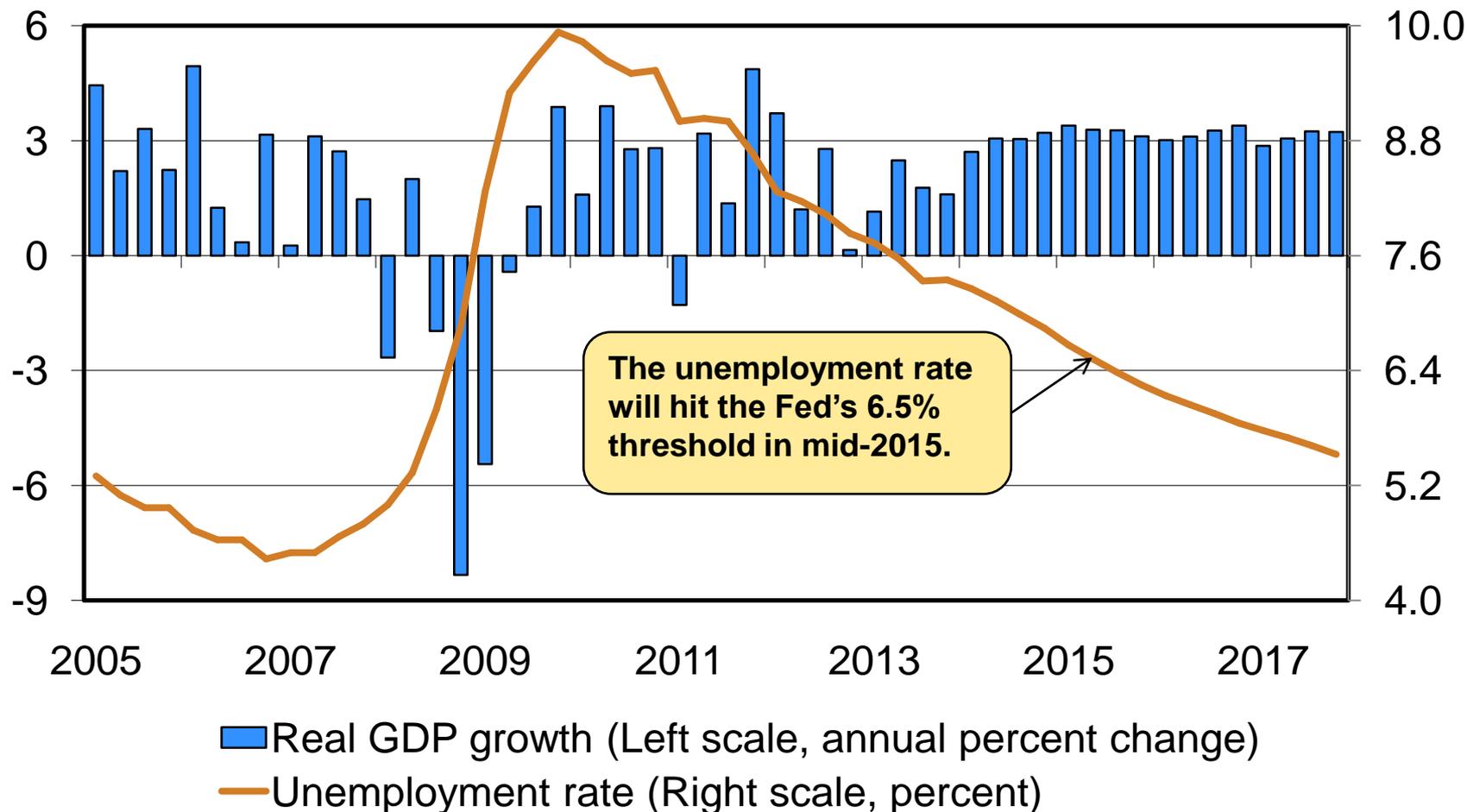


# The Developed Economies to the Rescue?

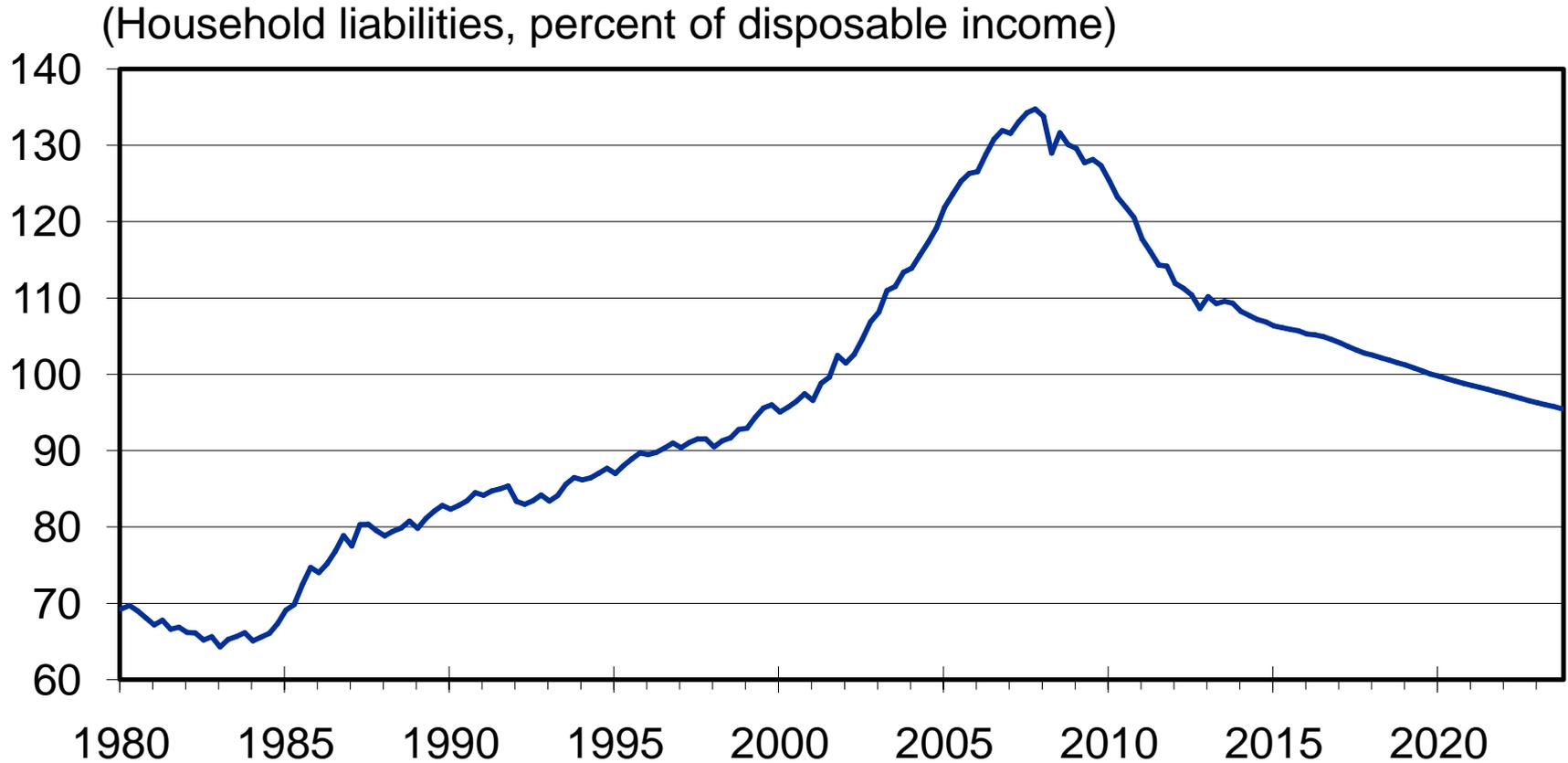
## The US: Set to become a locomotive – once again?

- Substantial progress has been made on reducing household, financial sector, and government leverage – to the detriment of growth
- Tax hikes and spending cuts have reduced real GDP growth by about one percentage point in 2013 – but this impact will fade next year
- A bad resolution of the budget standoff (now postponed to early 2014) in Washington could still do a lot of damage
- Other drags on short-term and long-term growth (declines in household formation, fertility, labor force participation, and capital-spending-to-GDP ratio) have eased and are likely to help growth soon
- The unconventional energy boom is set to create more jobs, improve manufacturing competitiveness, attract more investment, and reduce the trade deficit further
- Despite technology pessimists, the US is well positioned to take advantage of emerging technologies (Big Data analytics, 3-D printing, genomics, etc.)

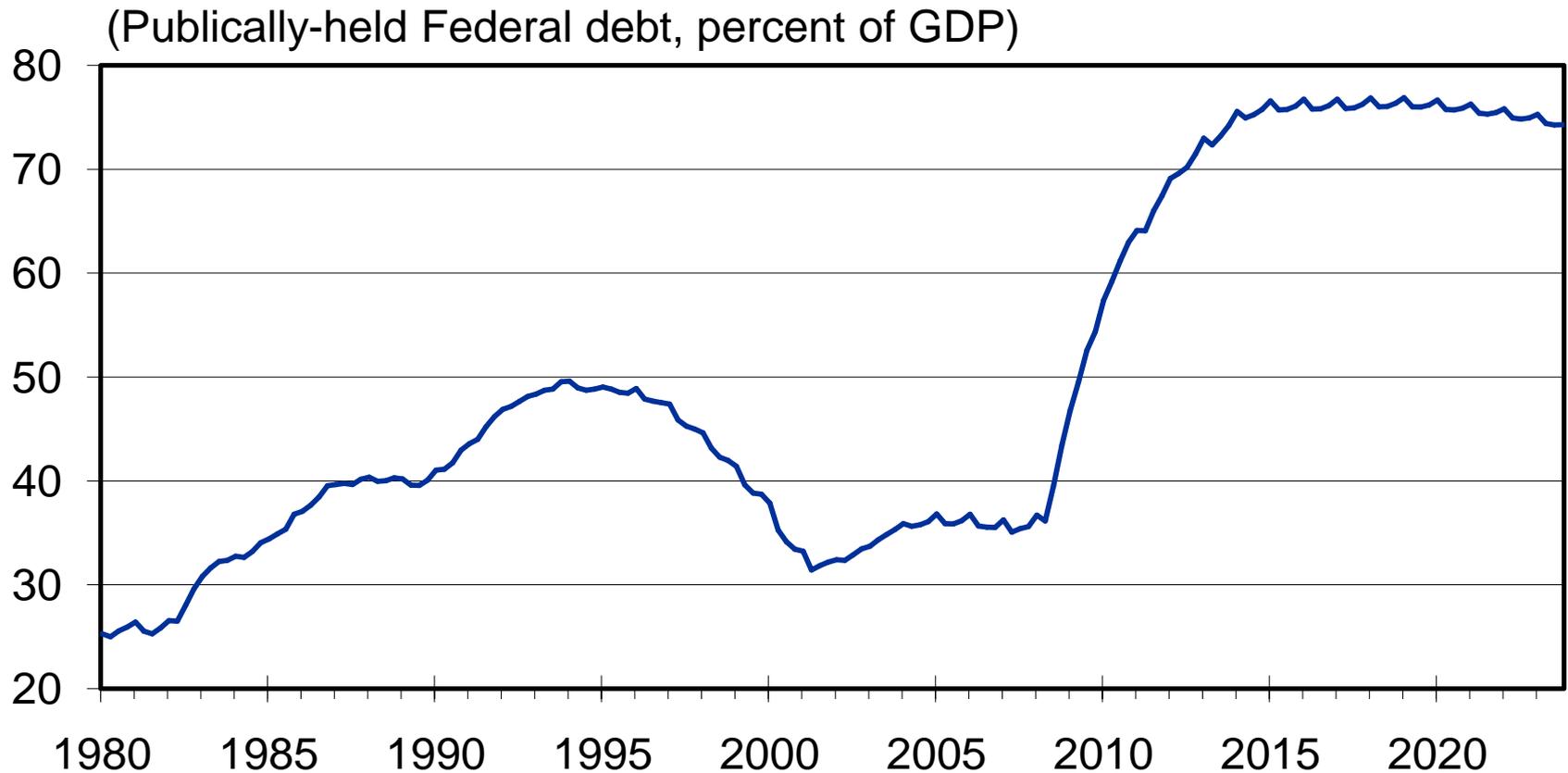
# US real GDP growth and the unemployment rate: Fiscal headwinds restrain 2013 growth



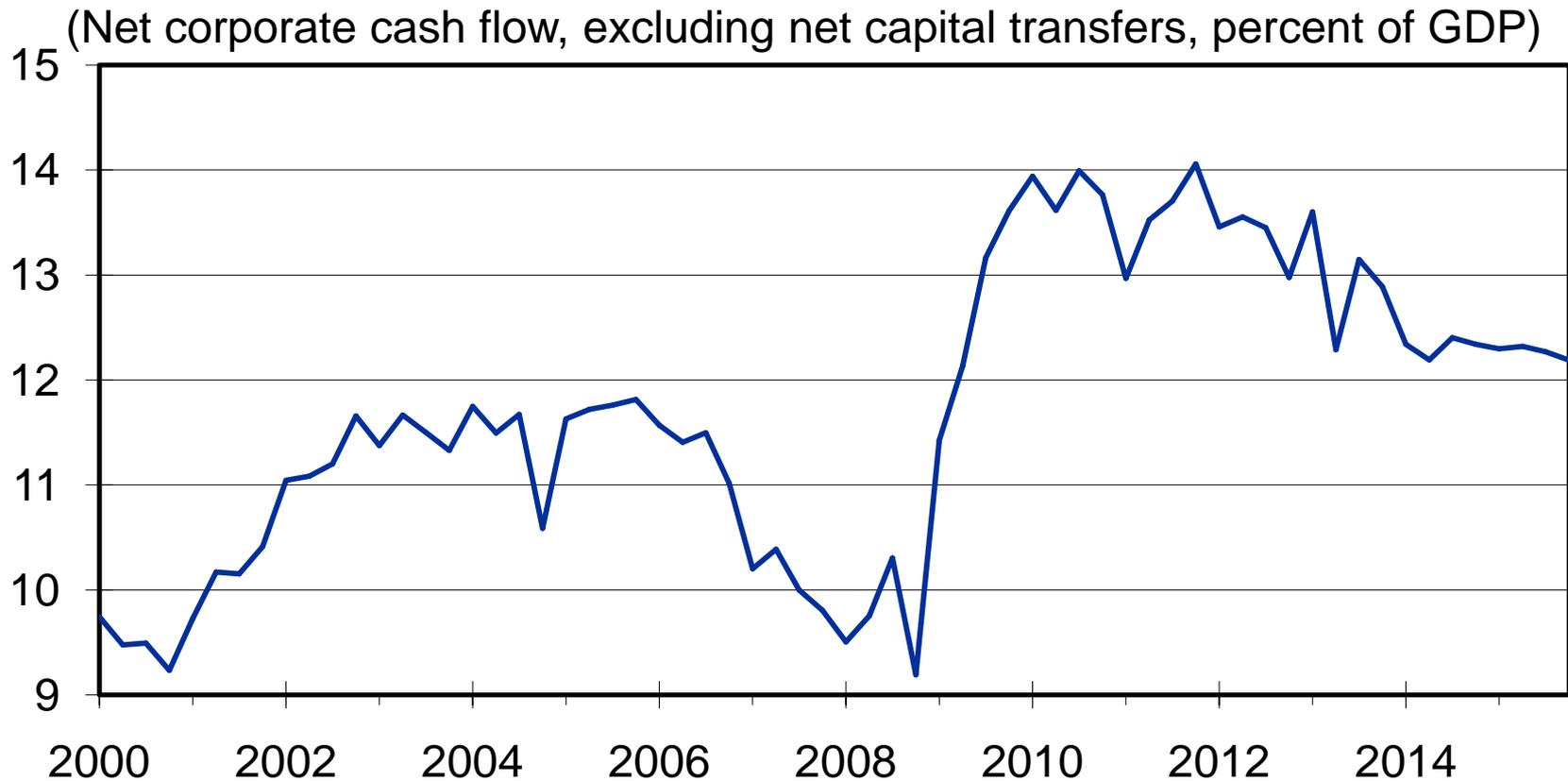
# US household deleveraging continues



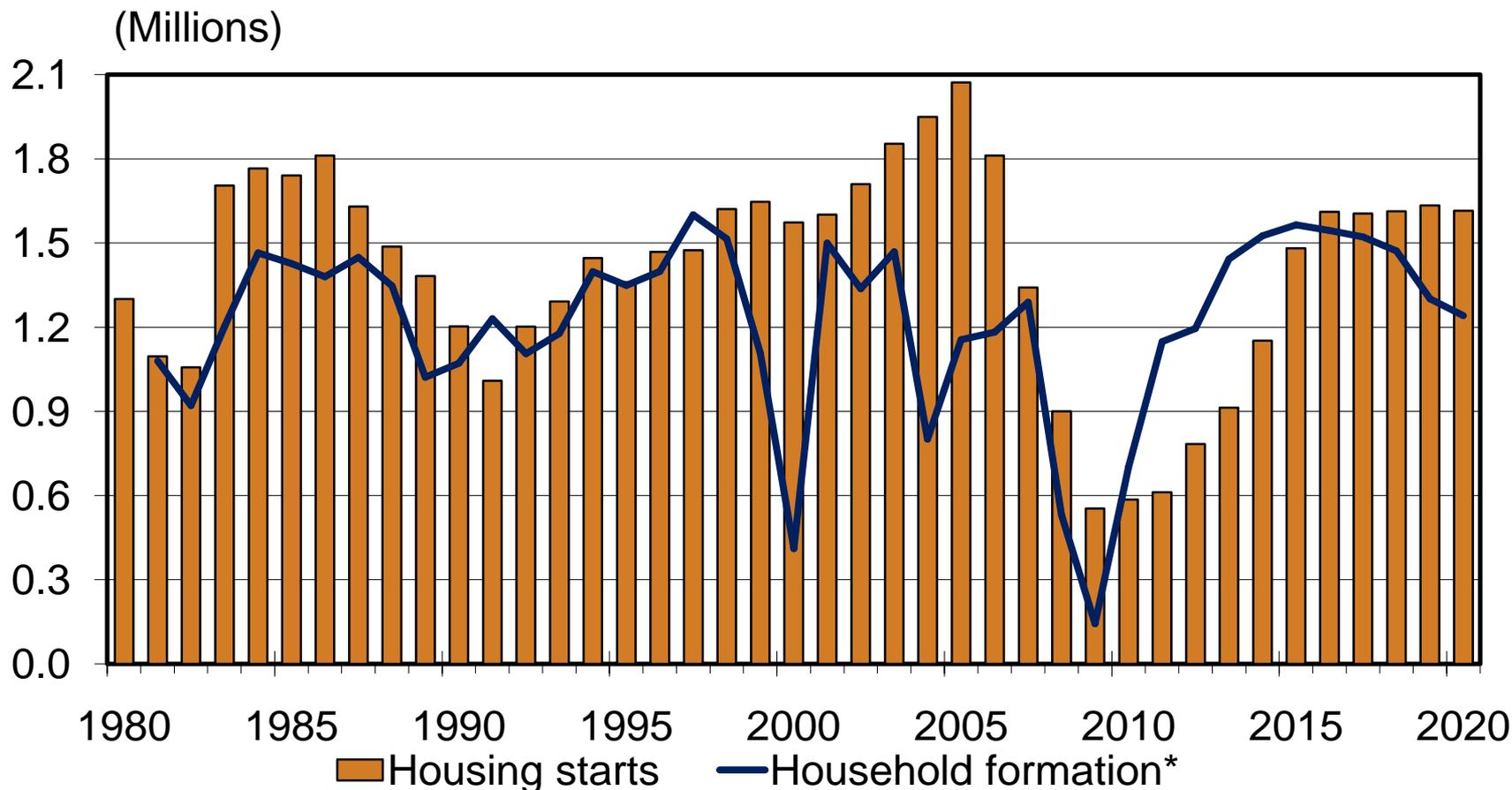
# US federal debt ratio to stabilize just under 80% in the decade ahead, but the biggest problems come later



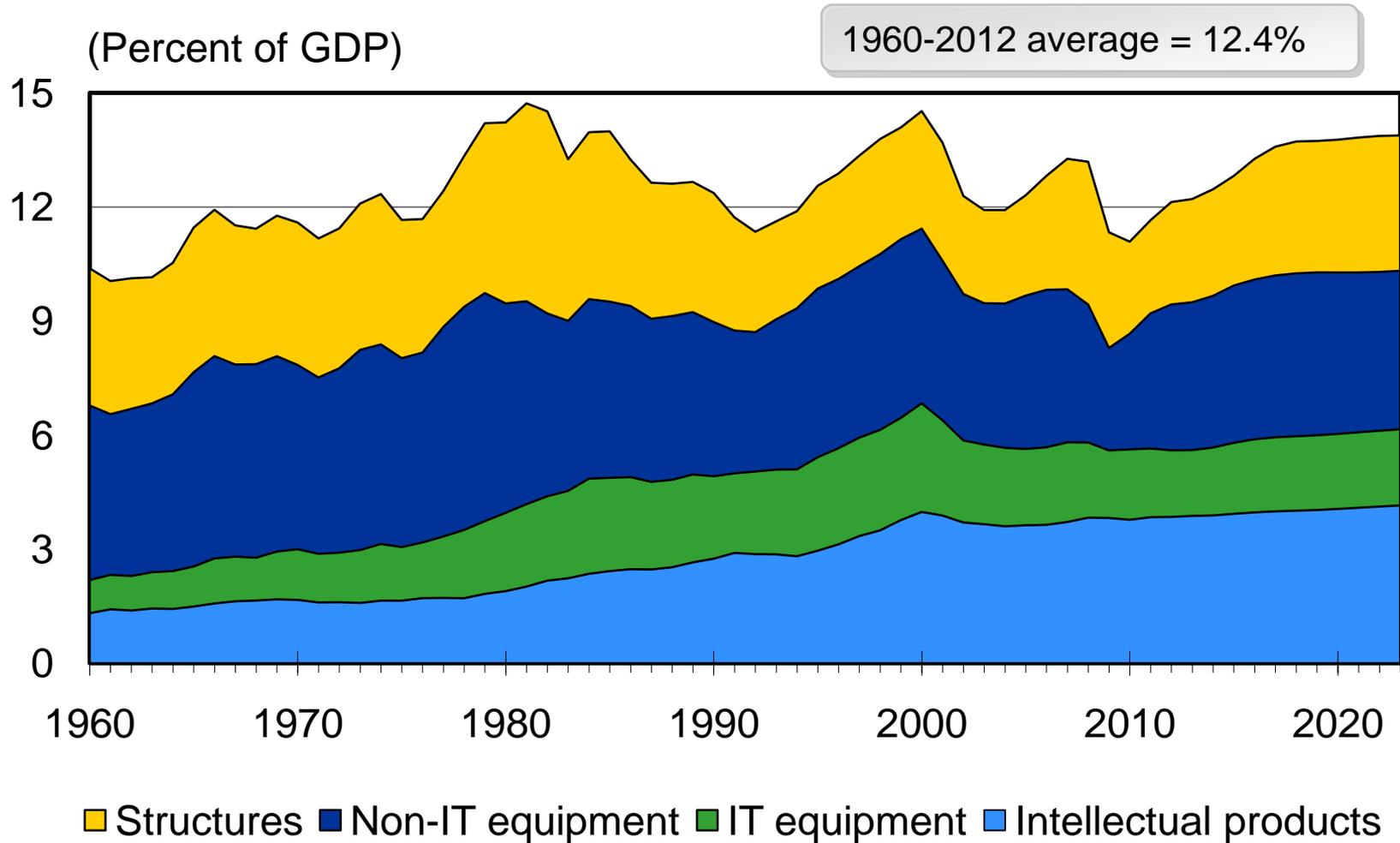
# US corporate cash flow has been strong, but its share of output is likely to decline



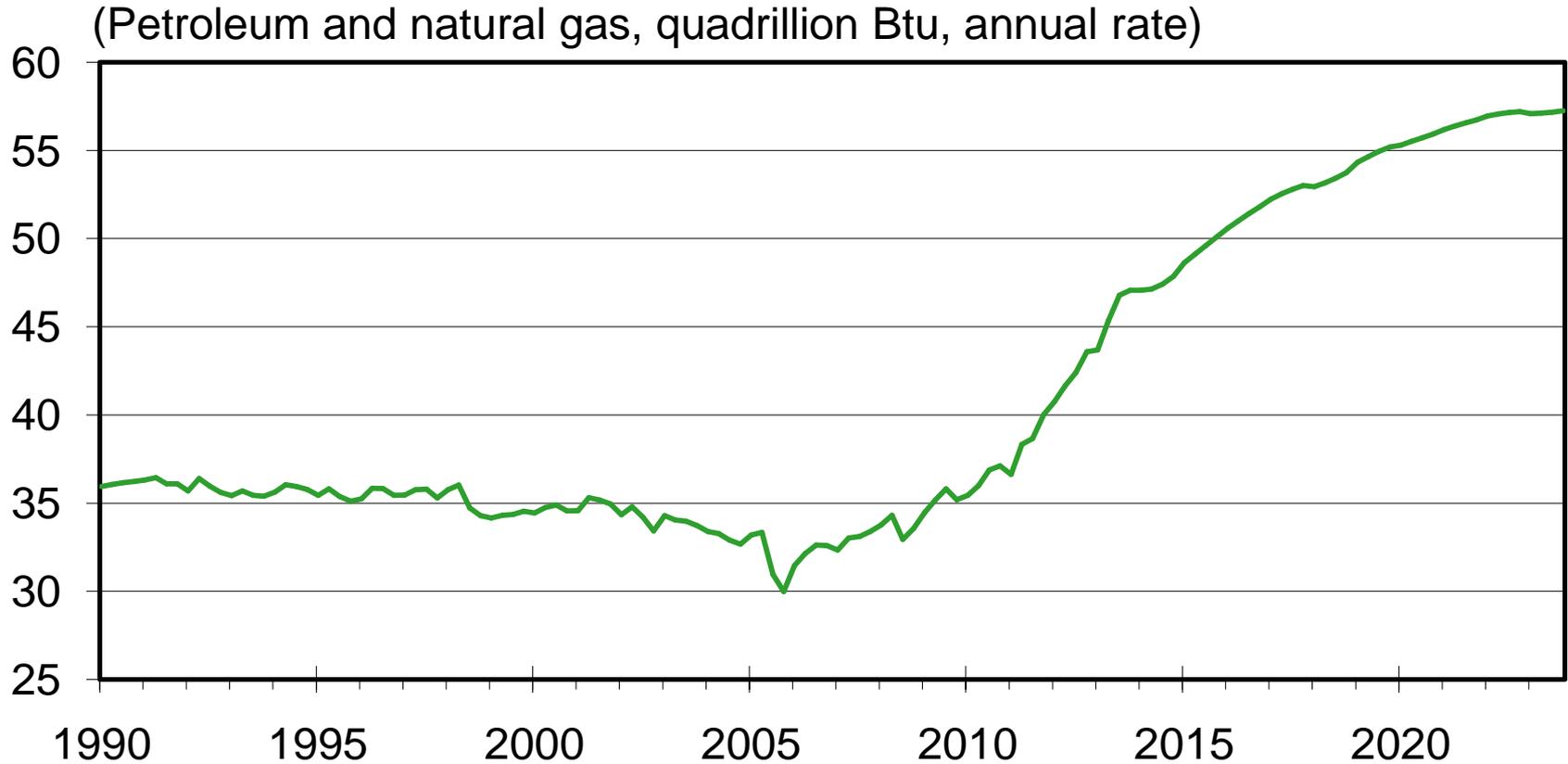
# A rebound in US household formation will support substantial increases in housing starts in 2013-15



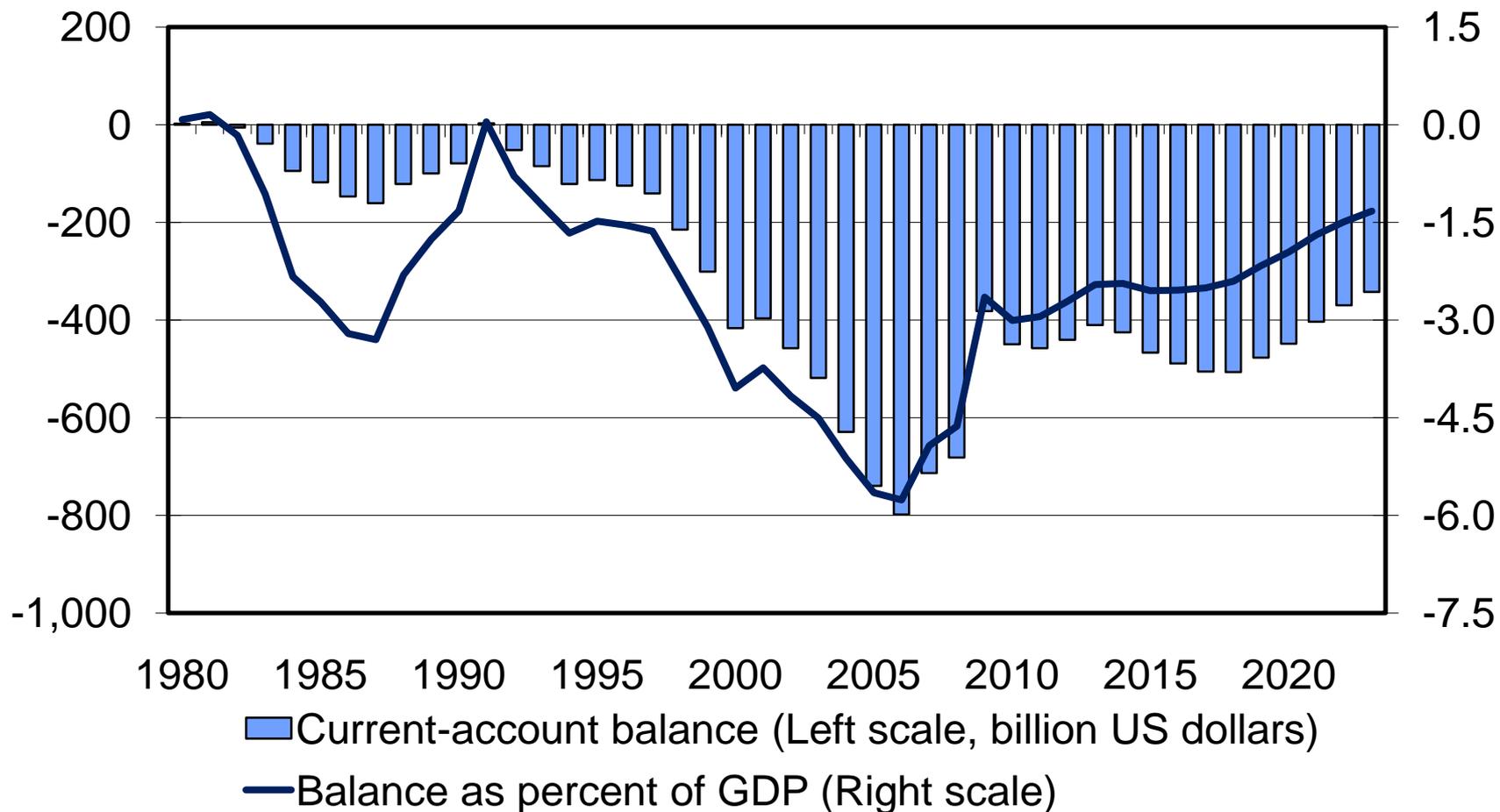
# US business fixed investment's share of GDP is recovering from its 2010 cyclical low



# US domestic energy production providing stimulus



# The US current-account deficit – thanks to the oil boom: going, going, gone?



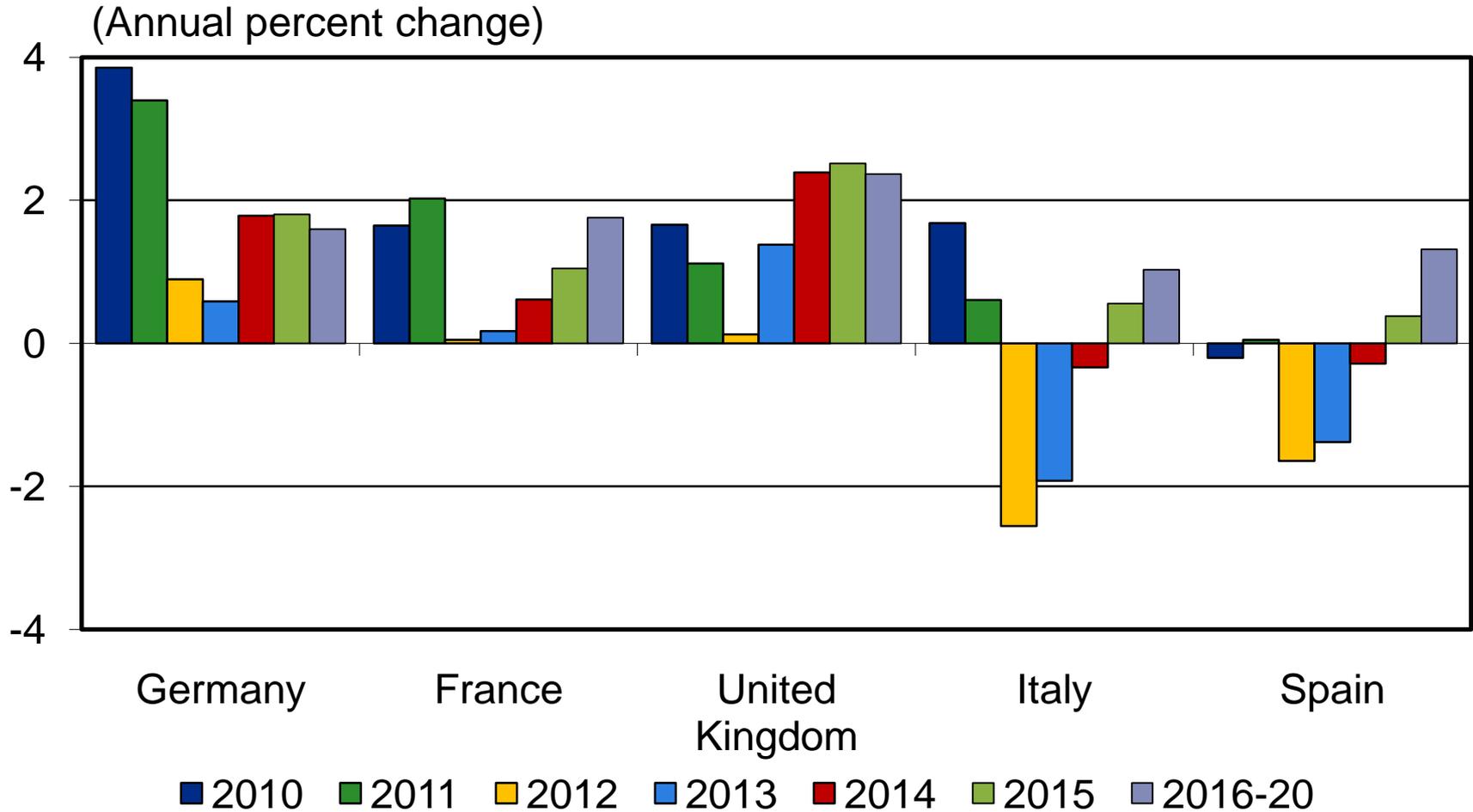
## Europe: Finally exited a record long recession

- Eurozone suffered mild but record long recession during Q4 2011 to Q1 2013 before finally growing slightly in Q2 2013
- Major North-South divide – but even most Northern countries struggling (especially Netherlands & France)
- Germany returned to marginal growth in Q1 2013 – it is benefiting from a strong labor market and decent real wage growth
- Extended weakness likely in Italy and Spain, as well as Greece and Portugal
- Tight fiscal policies, high and rising unemployment, and squeezed consumer purchasing power are restraining growth – especially in southern Europe
- Despite a better fiscal picture and improved competitiveness, a Greek exit remains a very real threat (40% probability it could occur in next 5 years)
- The UK is a bright spot

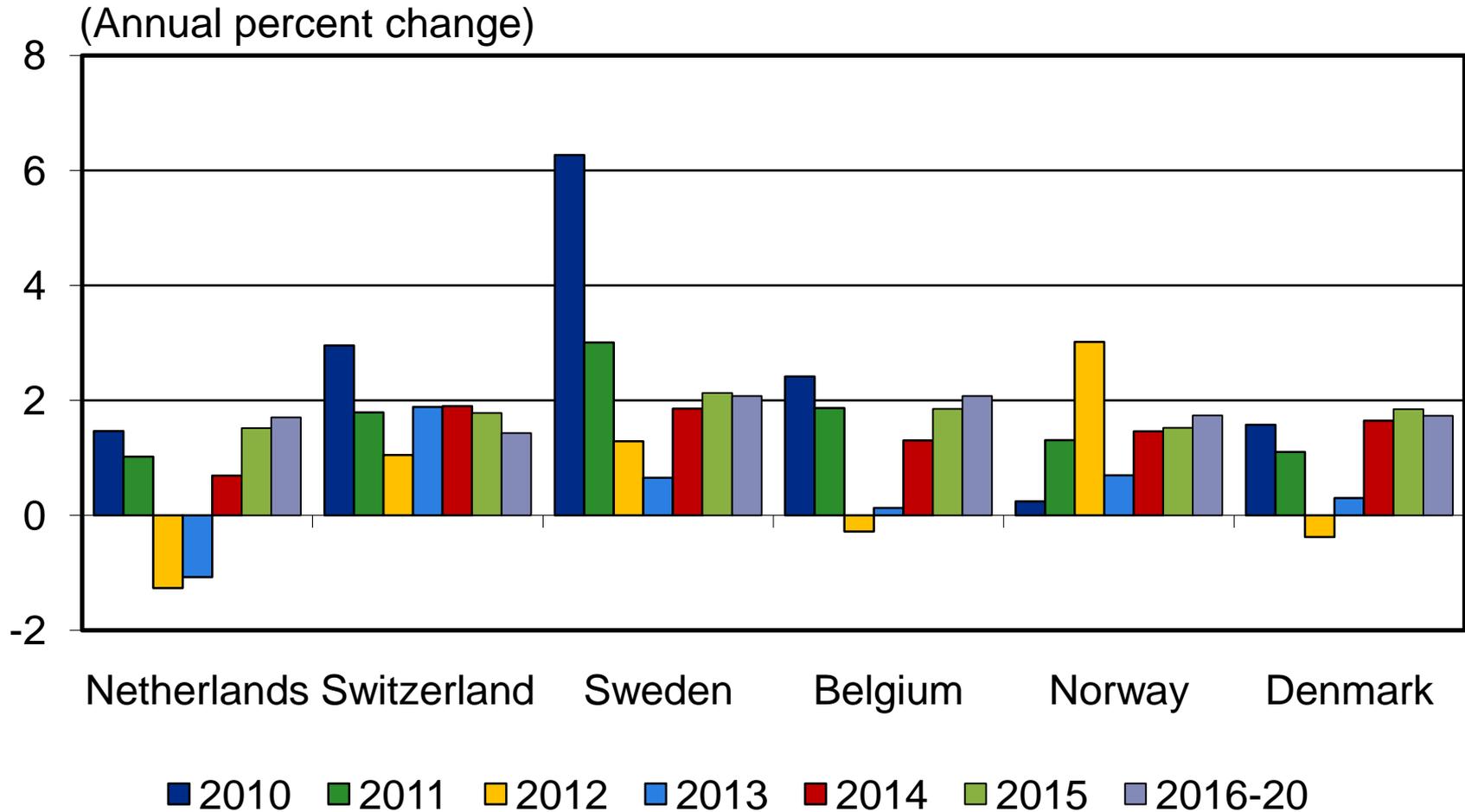
## Could European growth surprise on the upside?

- Monetary stimulus, pent-up demand, and mild inflation will support a recovery
- More focus on growth, less on austerity
- Credit conditions are less dire
- Improved competitiveness at the periphery will help exports and long-term growth
- Impact of crisis on confidence is easing
- However, there has been little progress on longer-term challenges (e.g., banking and fiscal unions)

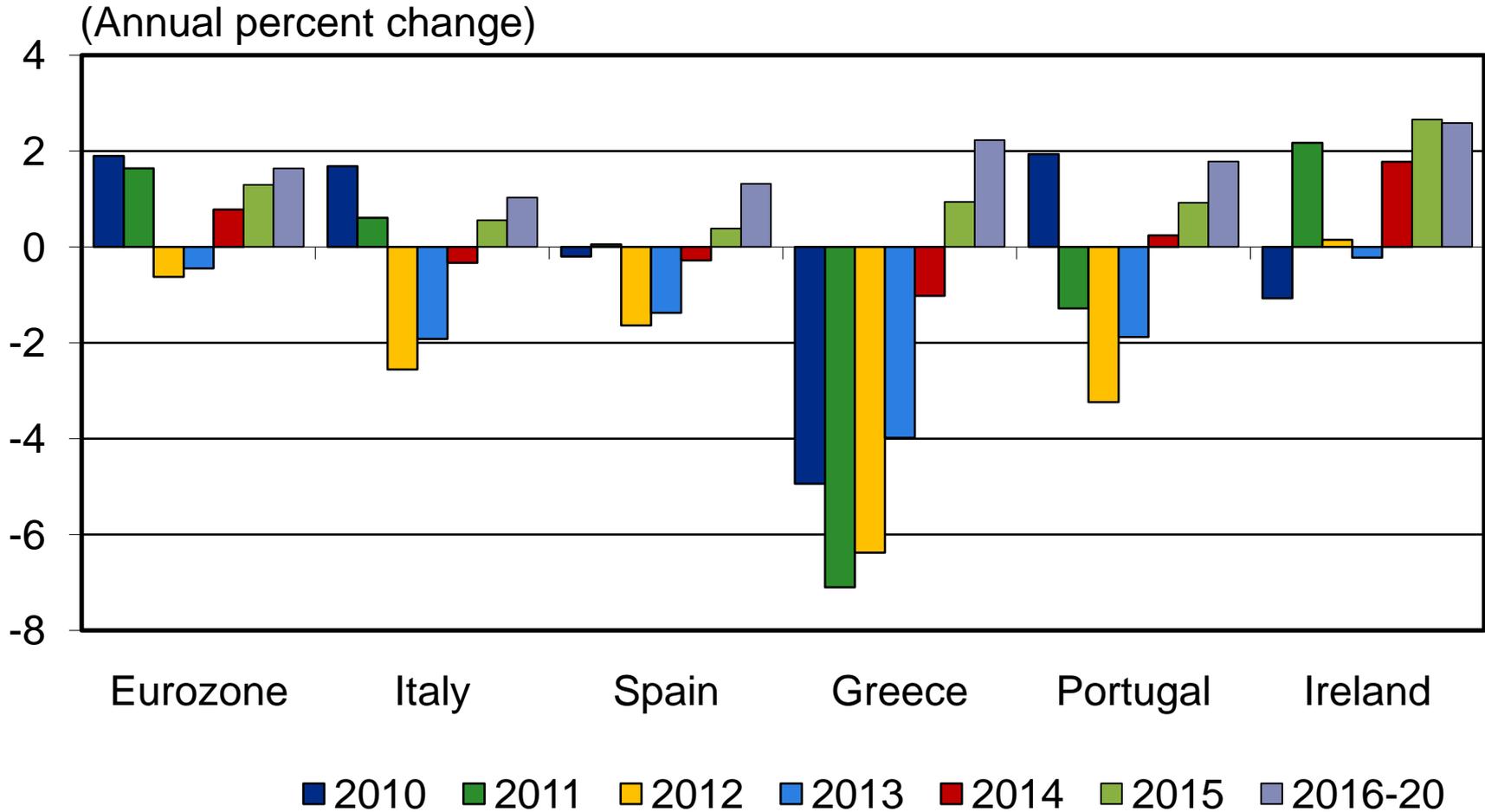
# Real GDP growth in Western Europe



# Real GDP growth in Western Europe (continued)



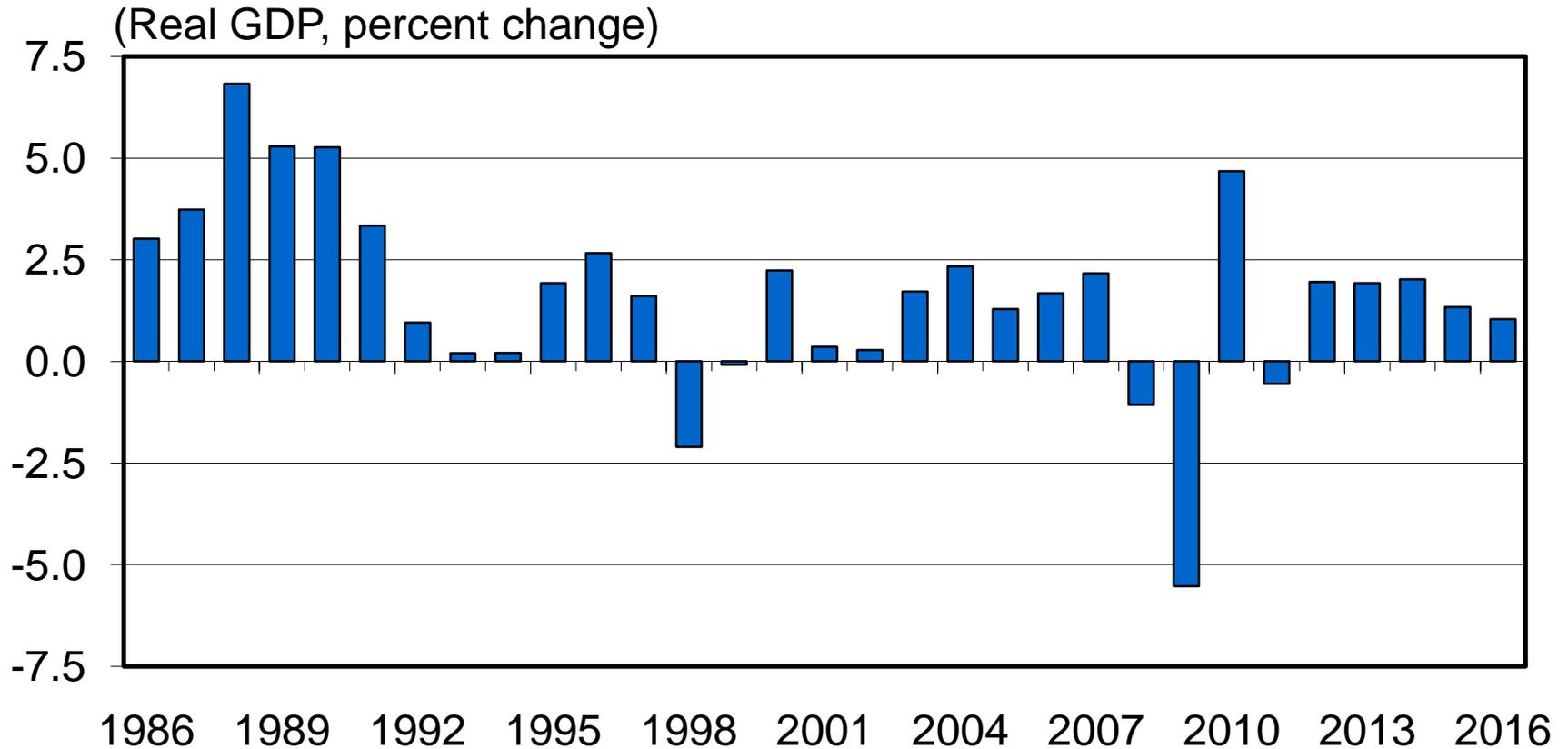
# Real GDP growth in the Eurozone's peripheral countries



## Can Japan sustain strong growth?

- After three recessions in the past five years, Japan's economy is recovering strongly, with growth around 4% in the first half of 2013 and deflation diminishing
- Abenomics has, so far, resulted in lower real interest rates, a much weaker yen, and a big jump in the stock market – all of which are helping growth
- Real GDP is projected to increase almost 2% in 2013 and 2014
- Sustained strength of Japan's recovery will depend on export performance and how effectively the Abe administration implements stimulus and reform programs
- The sales tax will increase from 5% to 8% in April 2014 and to 10% in October 2015, causing setbacks in consumer spending ...
- ... But the fiscal drag will be offset – temporarily – by roughly \$50 billion of fiscal stimulus

# Japan's economy: more upside possible with reforms





# What Happened to Emerging Market Growth?

## Global ramifications of “taper panic”

- Expectations of higher rates and diminished bond purchases by the Fed prompted capital flight from many risky markets – back to a “risk off” world
- Emerging Markets have been hit by rising bond yields and falling currencies
- The potential for rising inflation has forced monetary tightening by some Emerging Markets central banks (Brazil, India, Indonesia and Turkey) and intervention in foreign exchange markets by some (India and Russia)
- All this could have a short-term dampening impact on global growth
- Yet the recent bond and currency market moves may well reverse ...
- ... And, longer-term, the US growth rebound will help global prospects
- Note: this is not a reprise of the Asia crisis of 1997-98



## Watch list of vulnerable countries

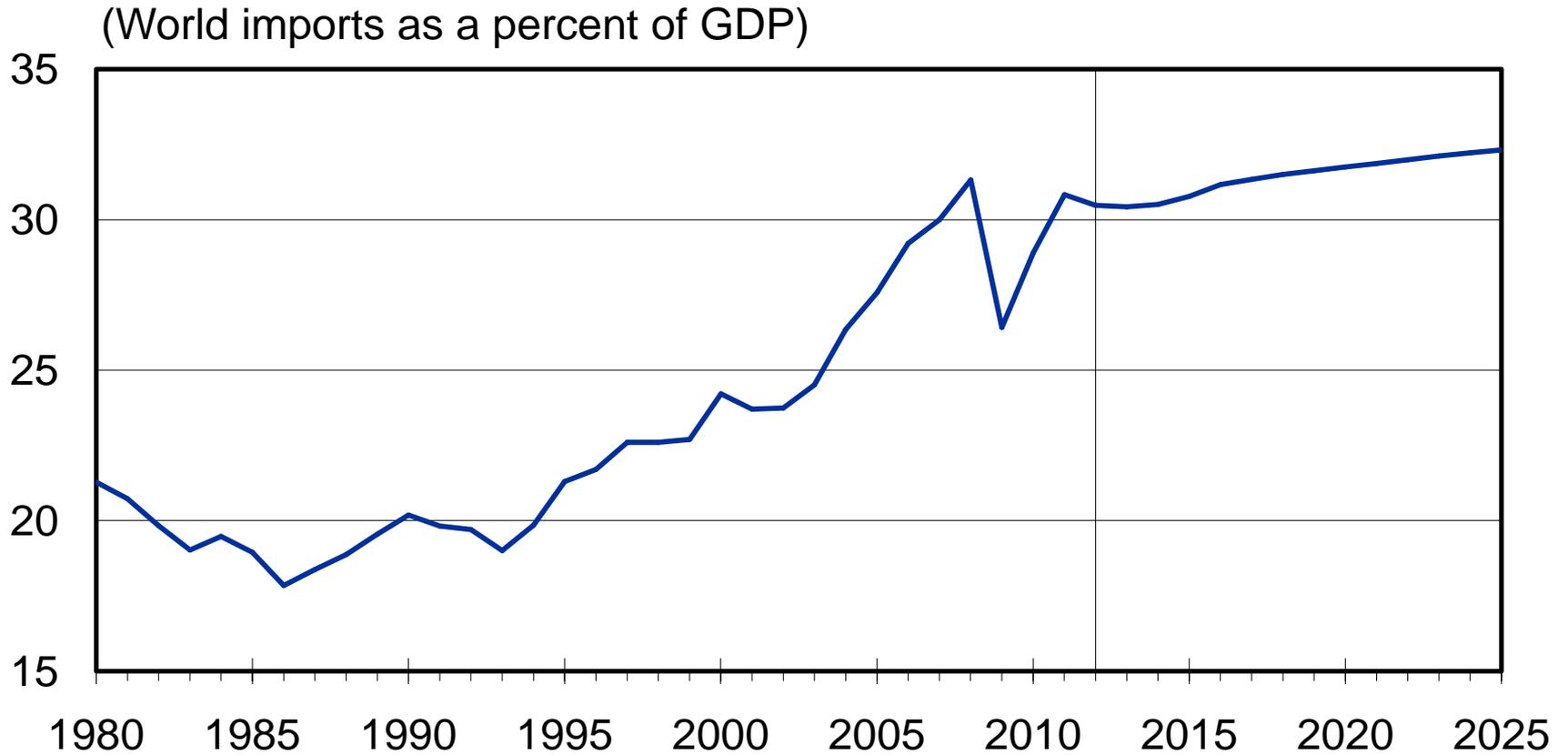
- Turkey\*
- South Africa\*
- Argentina
- India\*
- Indonesia\*
- Mexico
- Colombia
- Venezuela
- Ukraine
- Brazil\*

\*Morgan Stanley's "Fragile Five"

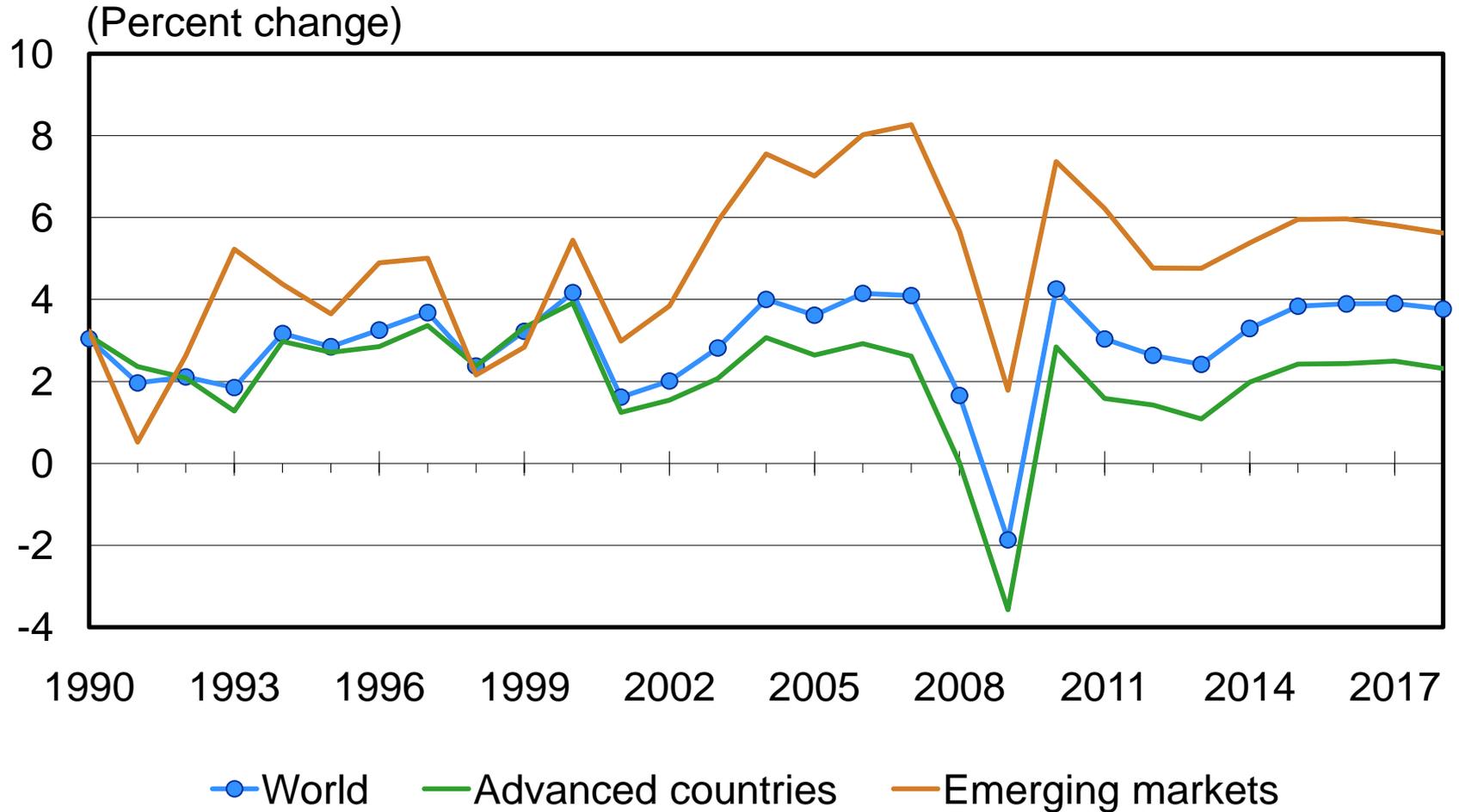
## Emerging Markets: Why the growth swoon?

- Both structural and cyclical factors are behind the slowdown
- “Currency war” fears notwithstanding, EMs rose on the tide of quantitative easing by the Fed, ECB, BoE, and (more recently) BoJ – an “addiction” to easy money
- There was no de-coupling
- The global recession and soft recovery have hurt – a falling tide exposes a lot of rocks
- While macroeconomic management has been good, there have been too few structural reforms – the state still plays too large a role in these economies
- Longer-term structural issues are “infecting” the near-term
- Investment spending has been hit particularly hard
- As the developed economies recover, these markets may have to compete harder for funds, although their exports will improve
- Was the decade of the 2000s a fluke (credit boom, hyper-globalization and commodity super-cycle)? Is the BRICs party over?

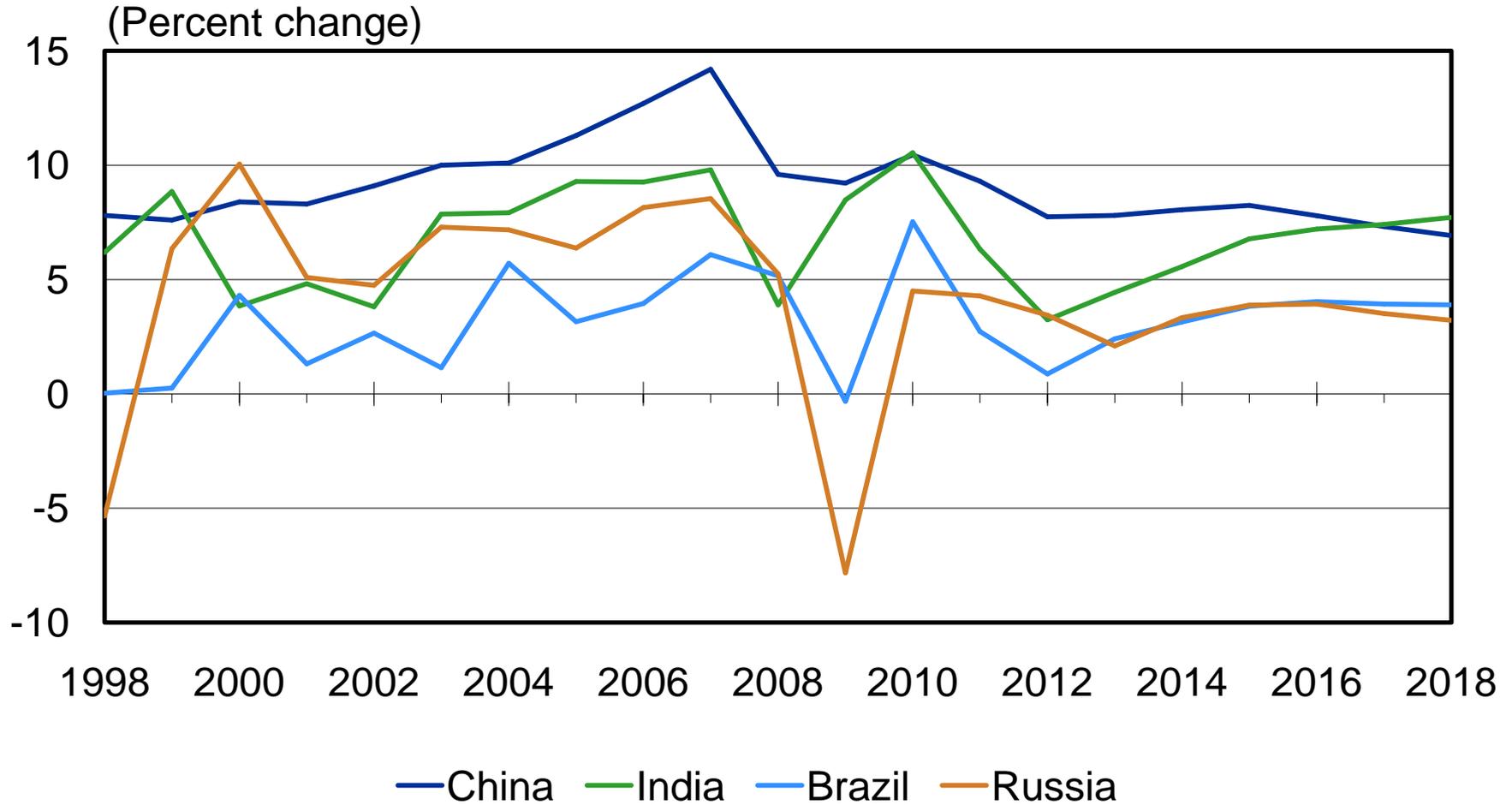
# The pace of globalization has slowed



# Emerging markets have contributed to the slowdown in global real GDP growth



# Real GDP growth in key emerging markets

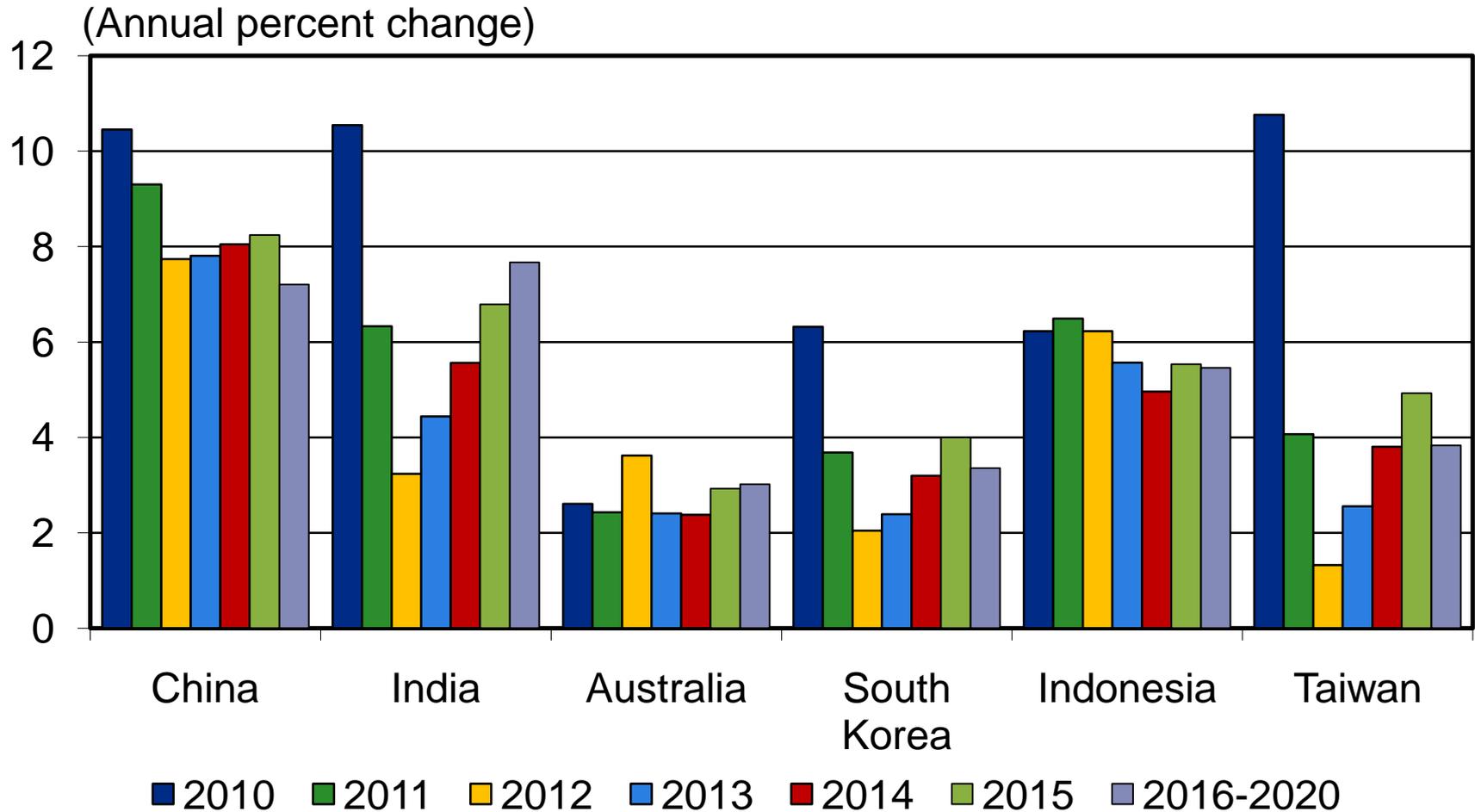


# Asia-Pacific: no repeat of 1997-98, but there is no room for complacency (let alone hubris)

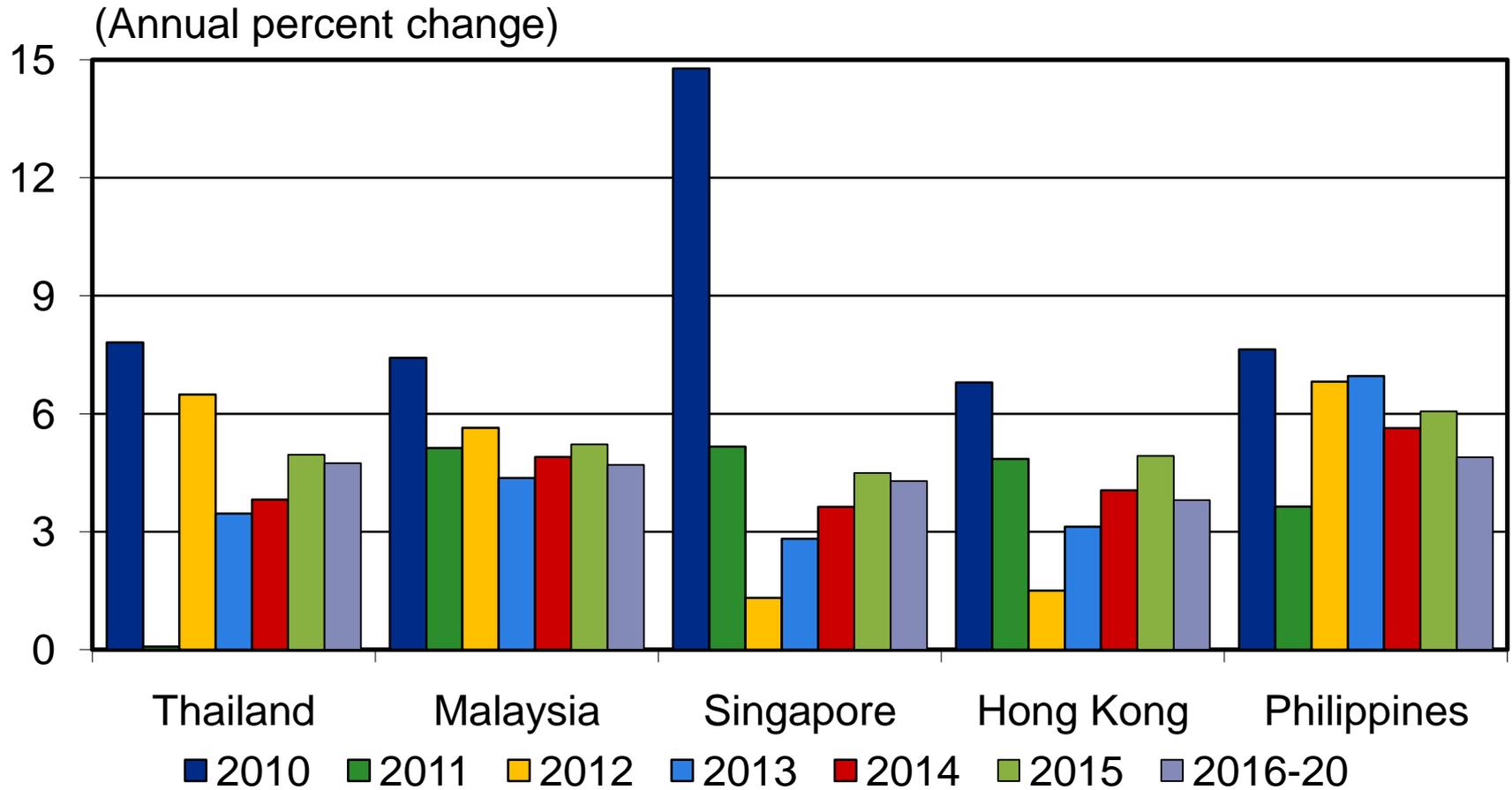


- The region is better off than in 1997-98 – debt levels are lower, forex reserves are higher, exchange rates are more flexible, and banks are healthier ...
- ... But governments have not used the intervening years to restructure their economies and become more self-supporting
- Also switching reliance from the US and EU to China for growth may not have been such a good idea
- How much will a stronger Japan help?
- The recent surge in private sector borrowing is worrisome
- Lessons: there is nothing inevitable about strong growth or attaining economic superpower status – structural reforms are a *sine qua non*
- **China** – will new leadership be able to fight vested interests and enact reforms?
- **India** – the political hurdles preventing needed structural changes are enormous

# Real GDP growth in Asia-Pacific



# Real GDP growth in Asia-Pacific





Implications

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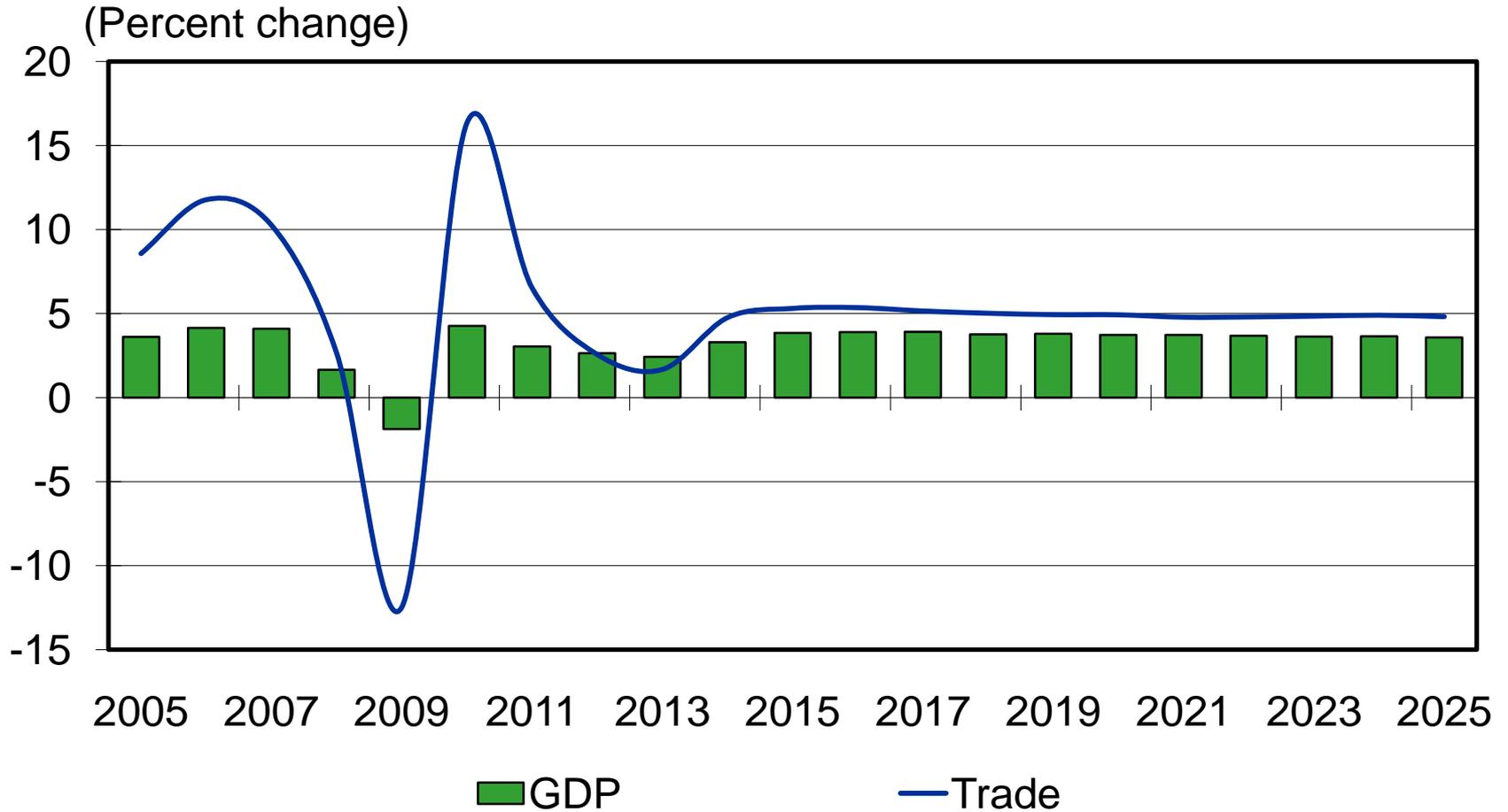
## Implications: Growth shifts back to developed world

- The developed economies will take more of a growth leadership role
- The US energy boom is one of the bright spots, and there are other upside risks
- The sovereign debt crisis in Europe has abated, but growth and structural challenges remain daunting
- Abenomics will help Japanese growth in the near-term – structural reforms are needed for sustained growth
- The recent sharp deceleration in Emerging Markets is worrisome – and a return to the boom years of the 2000s is unlikely
- This will have ramifications for countries and companies whose growth strategies were predicated on continue rapid growth in these markets

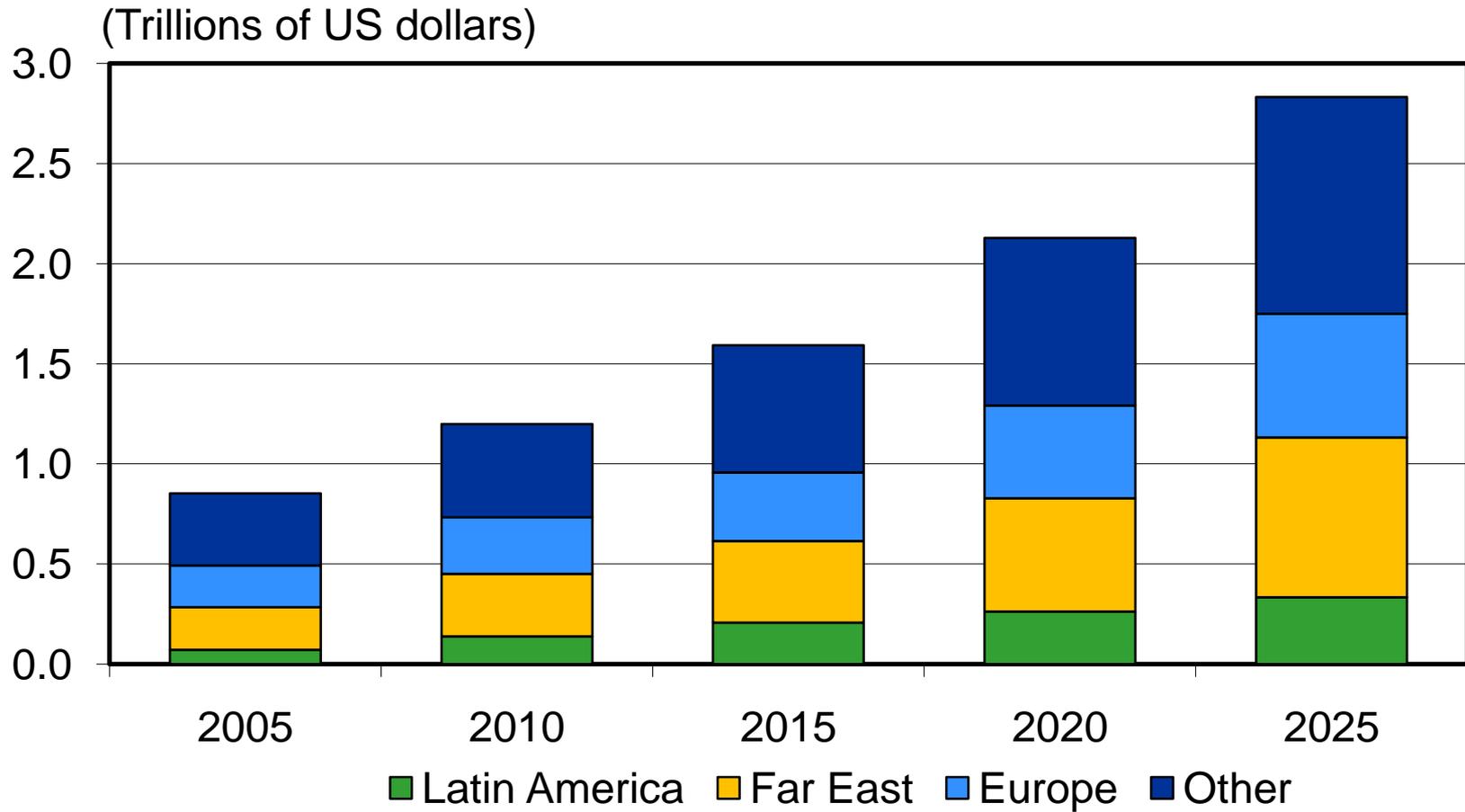


# Trade Implications

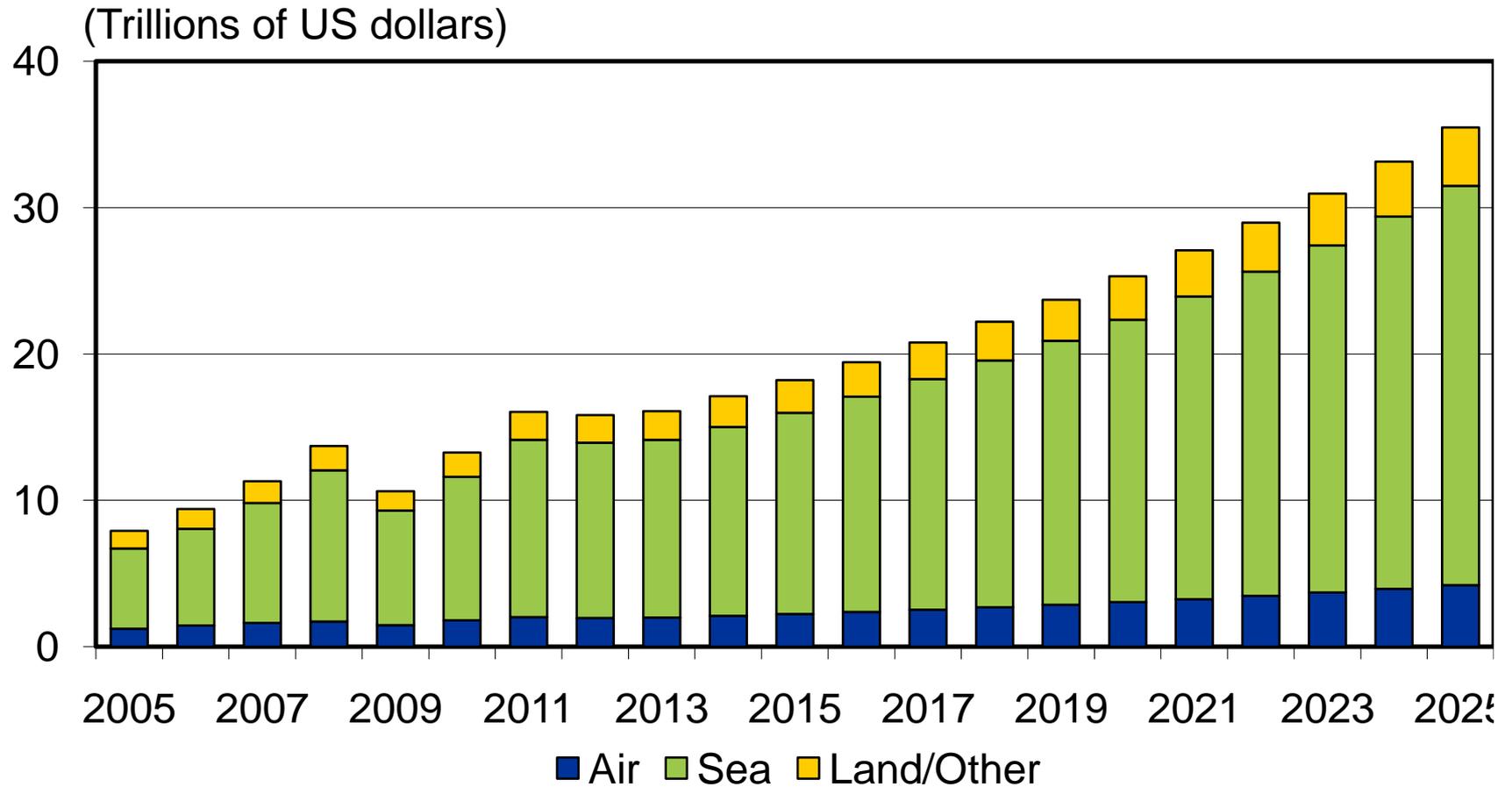
# World trade typically grows faster than real GDP



# US exports by region



# Growth in global merchandise trade



Note: Intra-Europe trade excluded

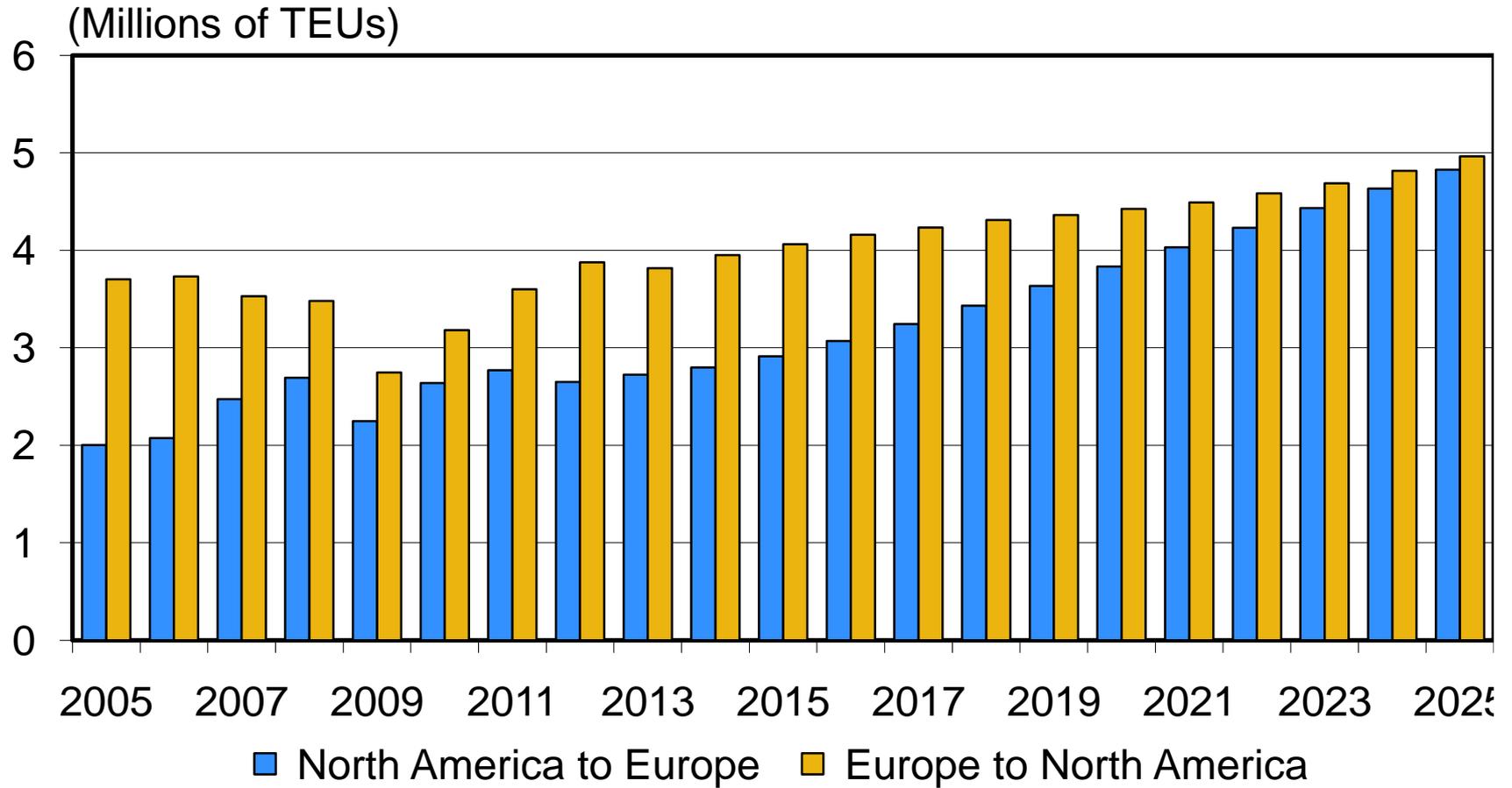


# Containerized trade movements

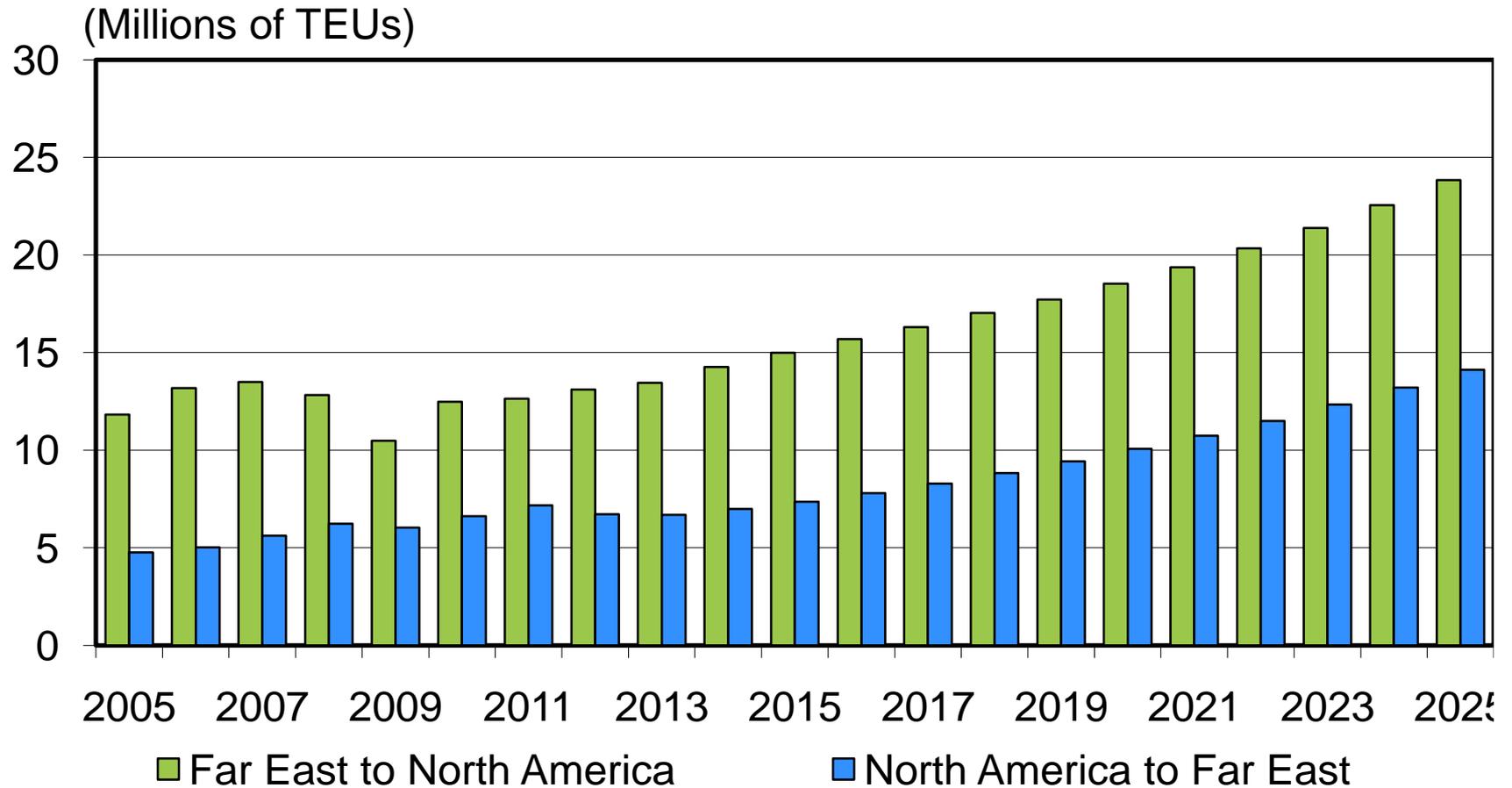
(Thousands of TEUs)

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>
<b>Transatlantic</b>	5,708	5,821	6,975	8,259	9,790
<b>Transpacific</b>	16,587	19,101	22,354	28,596	37,961
<b>U.S. Atlantic/Far East</b>	3,613	4,850	5,637	7,229	9,724
<b>Europe/Far East</b>	13,340	18,872	21,479	27,879	36,482
<b>Intra-Far East</b>	18,249	22,499	28,658	37,357	48,109
<b>World Total</b>	85,287	110,266	136,037	176,804	229,211

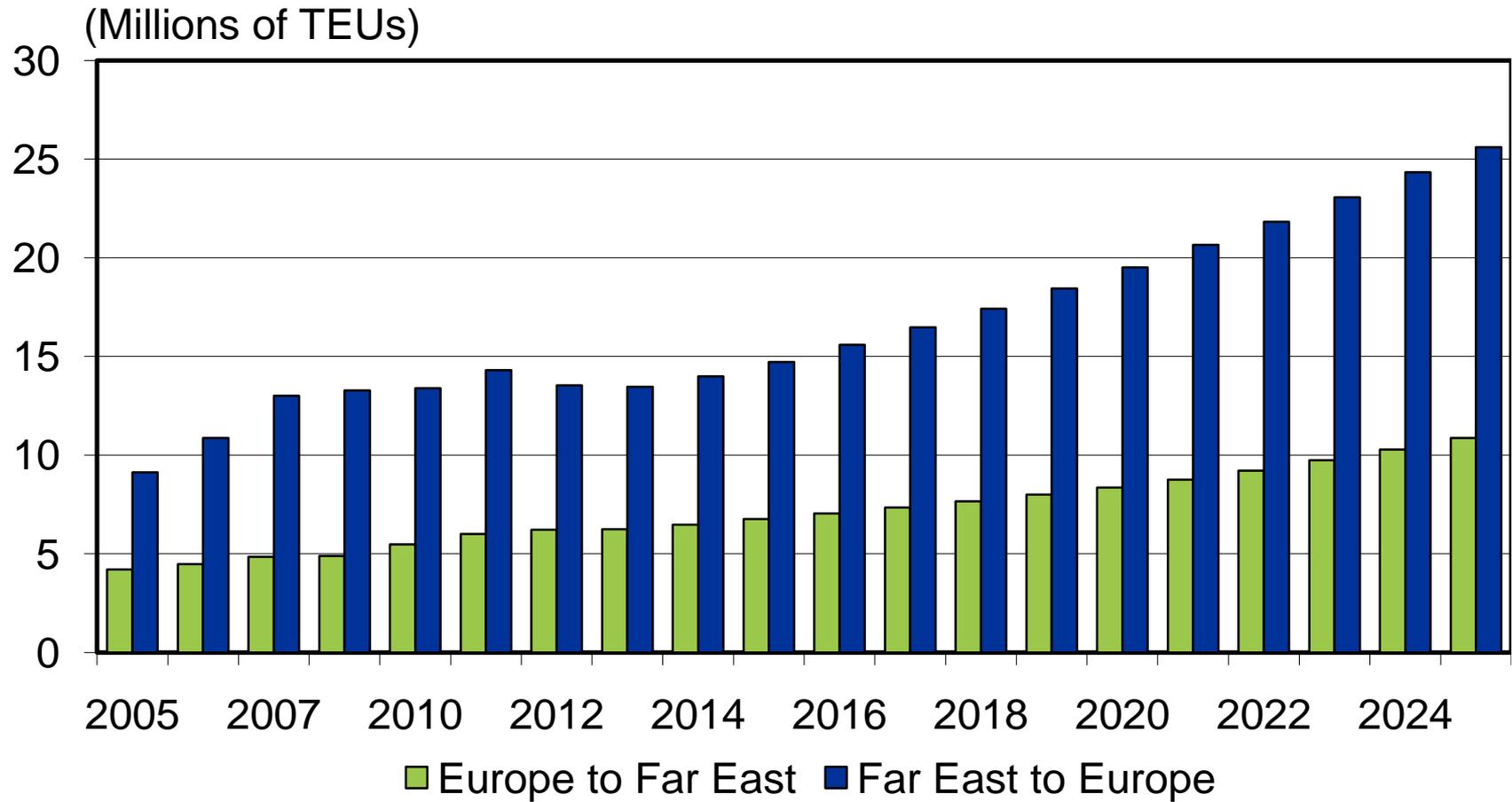
# Transatlantic container trade



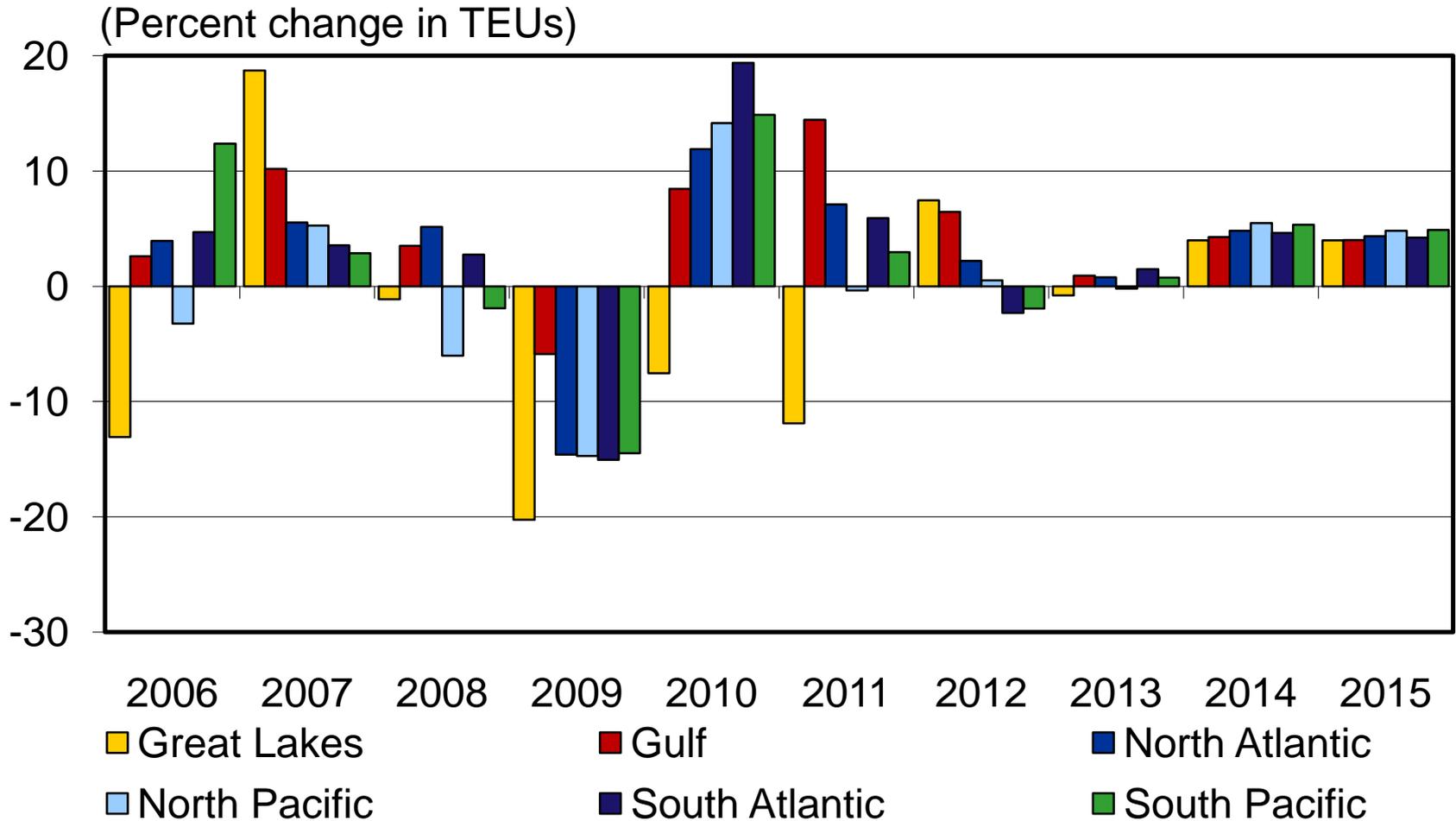
# Transpacific container trade



# Europe to Far East container trade



# Container growth rates by US coast



## Implications for the Port

- Trade will remain an engine of global growth in the long-term ...
- ... But activity has slowed dramatically
- Transatlantic containerized trade growth slowed sharply in 2012; in 2013, it is likely to be flat
- 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



Thank you!

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