



Teetering on the brink: is the world heading for another financial crisis?



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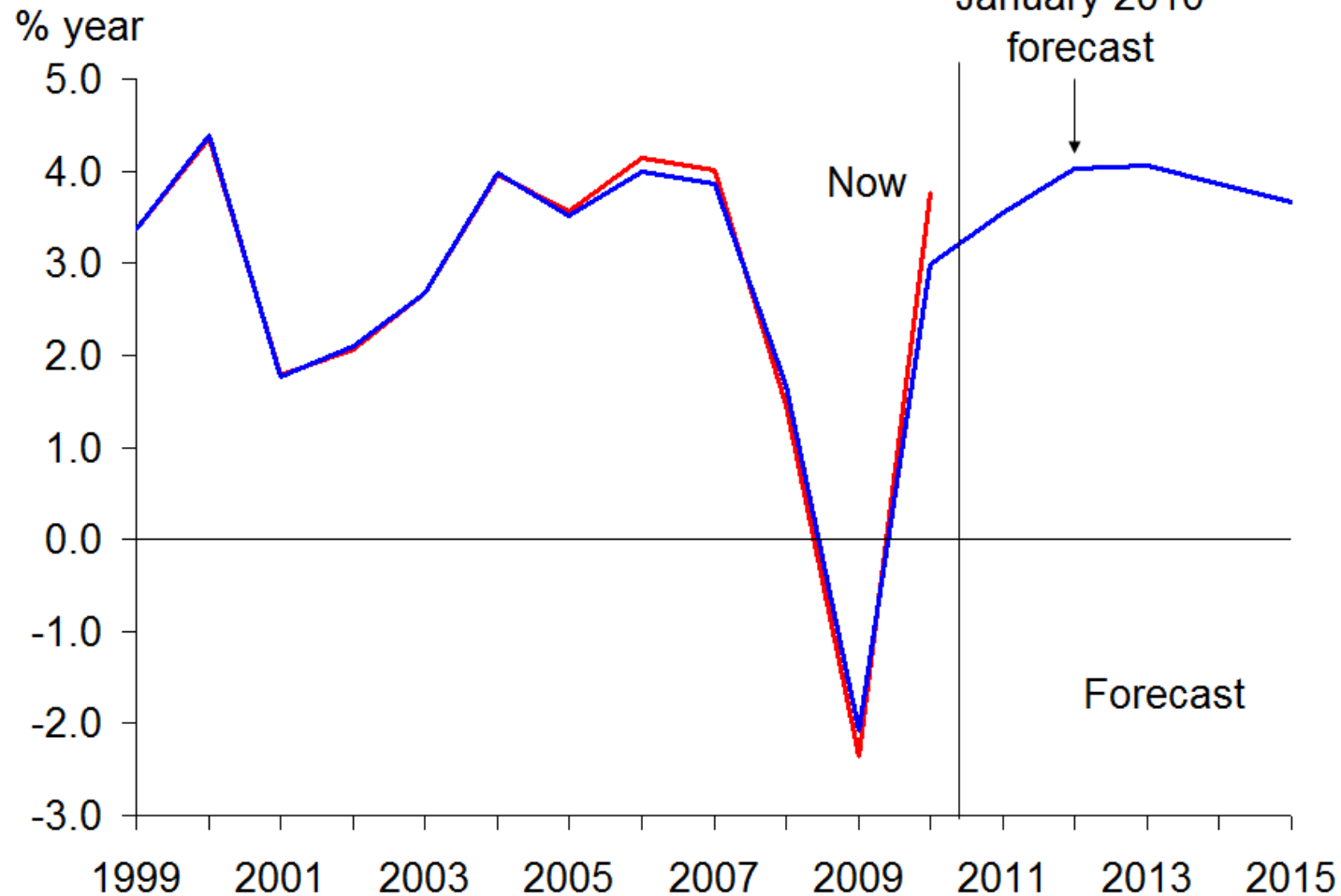
Oxford Economics

- Founded in 1981 as a joint venture with Templeton College in Oxford University, Oxford Economics has since grown into one of the world's foremost independent providers of global economic research and consulting
- The rigor of our analysis, calibre of staff and links with Oxford University make us the most trusted resource for decision makers seeking independent thinking and evidence-based research.
- Over 60 in-house economists.
- Extensive experience in industry and public-sector analysis.
- Unique Global Economic Model.
- Links to Oxford University and other leading research institutes.



Global recovery initially stronger than expected...

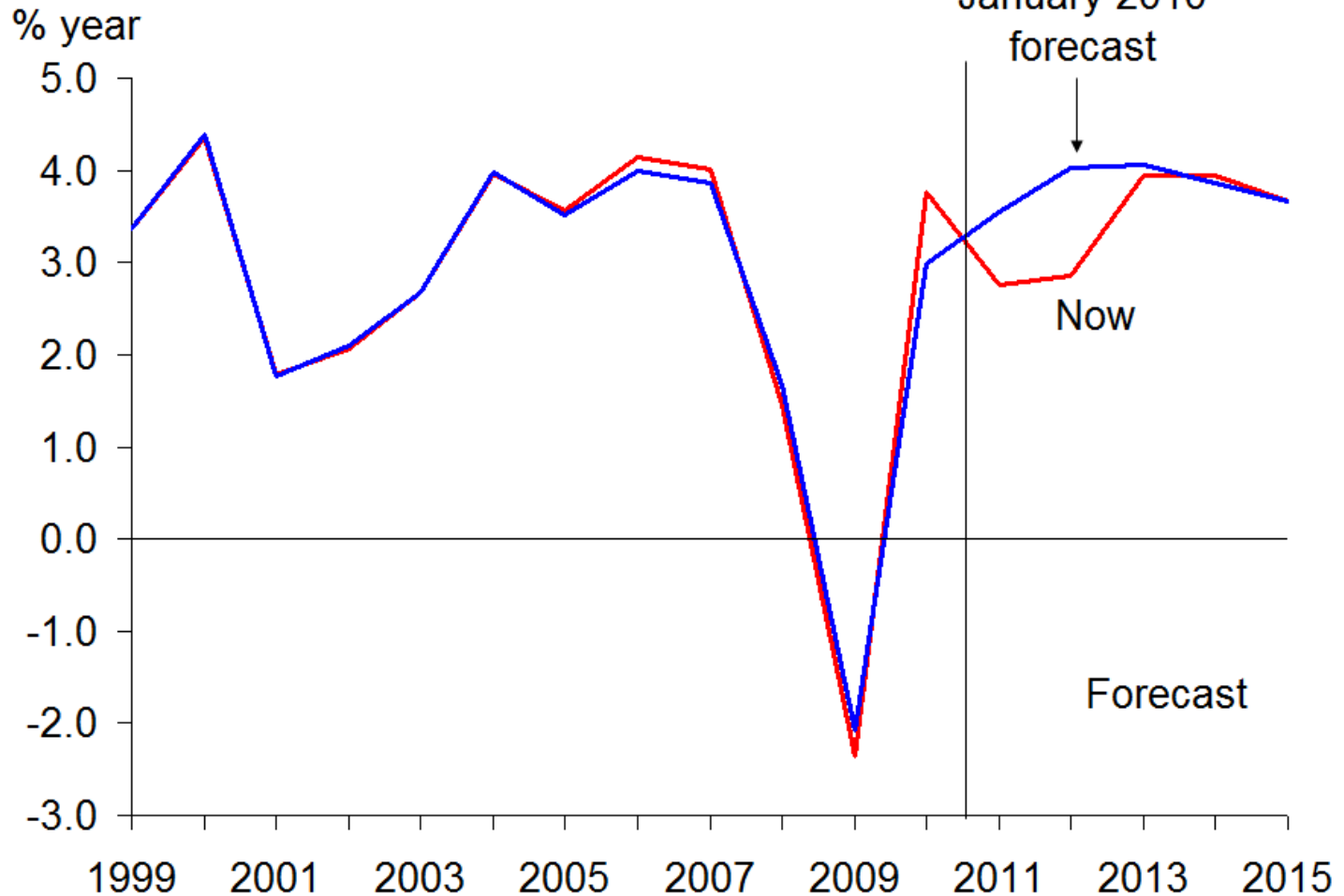
World: GDP growth



Source : Oxford Economics

...but no longer

World: GDP growth



Source : Oxford Economics

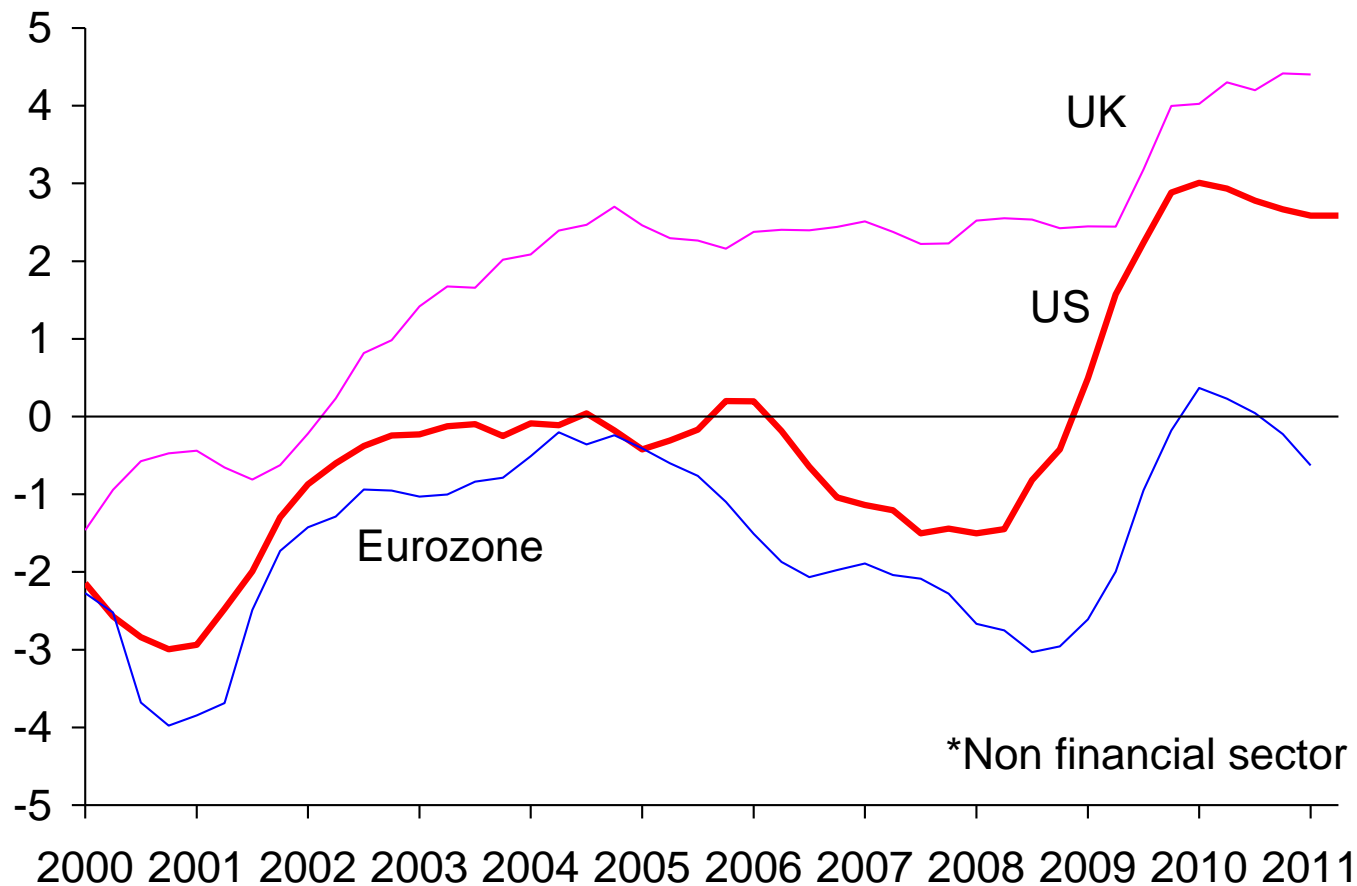
Points to remember in an interconnected world

- Companies have driven the cycle and will be vital for recovery
- Currency stories are the key policy background
- Government debt worries driving policy

Companies are cash-rich

World: Corporate sector* financial balance

% of GDP, 4-quarter average



*Non financial sector

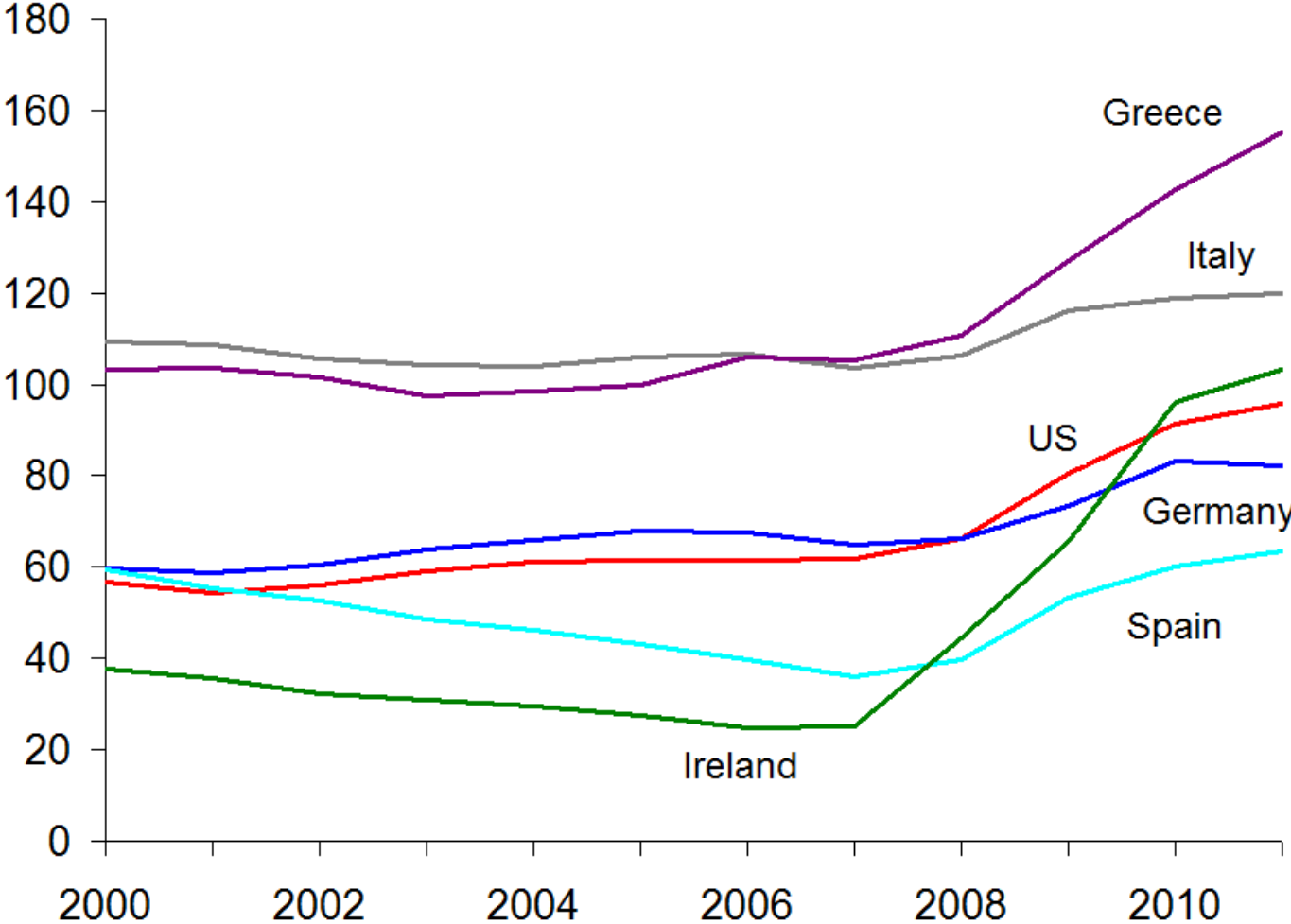
Source: Oxford Economics

Currency areas are creating tensions

- Some euro area countries have current account deficits with offsetting capital flows financed by ECB, IMF and surplus governments.
- The deficit countries have weak growth but monetary policy is tightening and confidence is fragile
- All member countries want to maintain the euro but still not clear that they will take the necessary measures to do so
- The US has a large current account deficit with China financing it by buying treasuries
- The US has weak growth but monetary policy is set to remain expansionary and fiscal policy has tightened but..
- China etc has inflationary problems but is resisting any exchange rate changes
- The US Fed wants the policy to change?

Debt worries driving government policy

General government debt as % of GDP



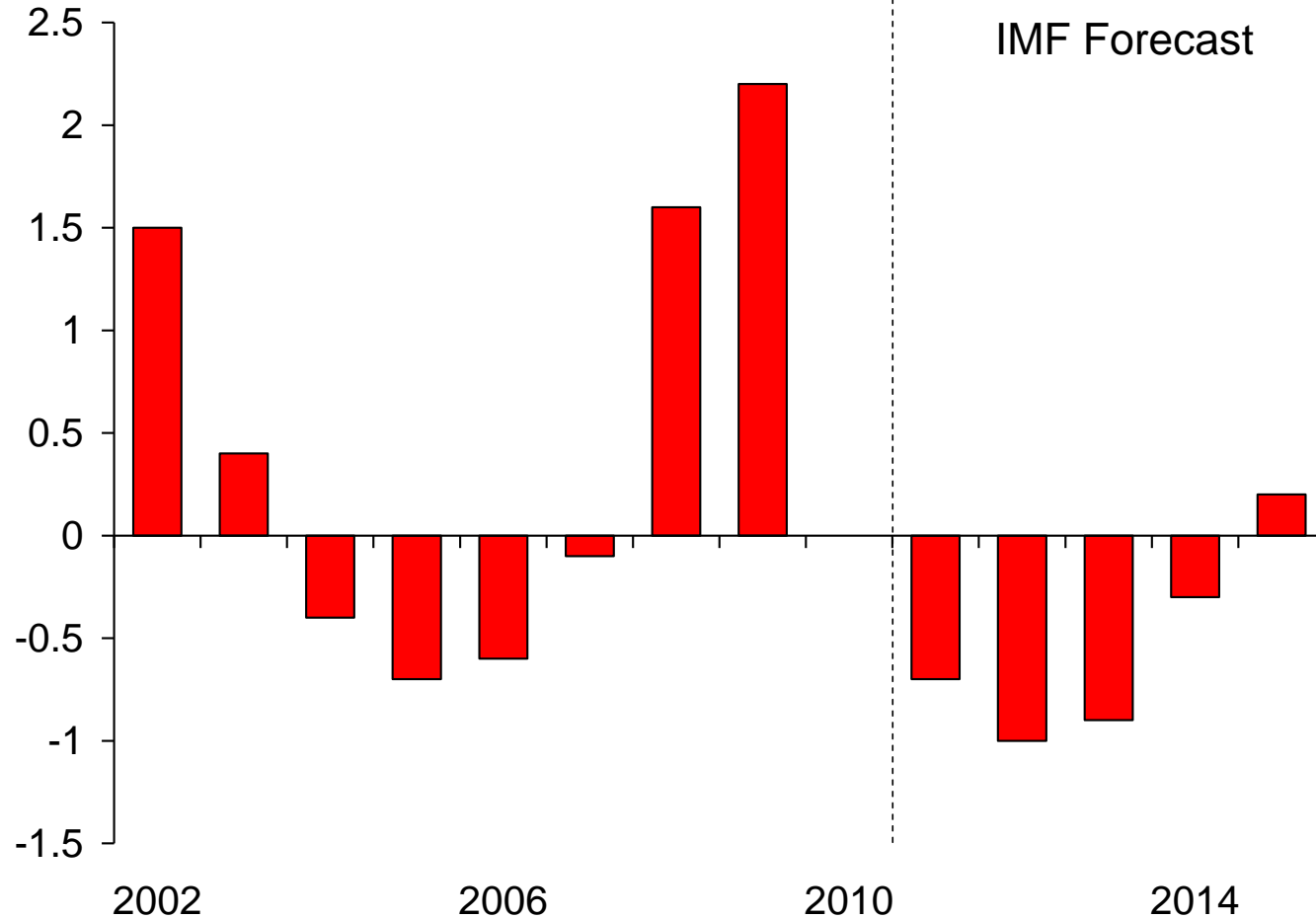
Source : Oxford Economics

So why is growth slowing?

- Some slowdown inevitable after inventory-driven rebound in 2010
- Special factors – eg Japanese earthquake/tsunami
- Policy tightening
- High oil and commodity prices
- Household and corporate caution – now compounded by financial market volatility

An age of fiscal austerity...

change in cyclically-adjusted structural balance (sign reversed),
% of potential GDP

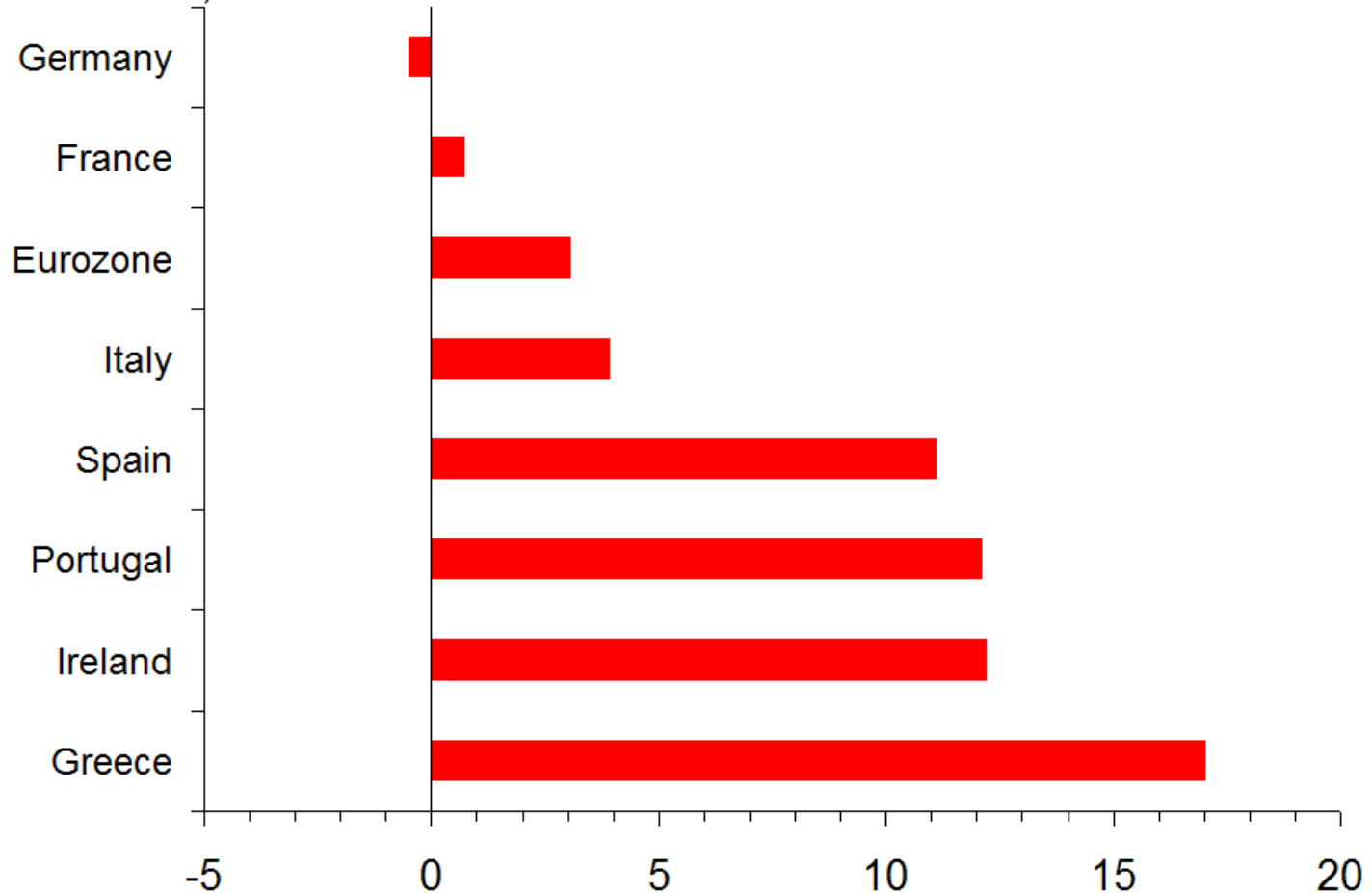


Source : Oxford Economics/Haver Analytics

...extreme in Europe

Discretionary fiscal tightening, 2010-13

% of GDP, total 2010-2013



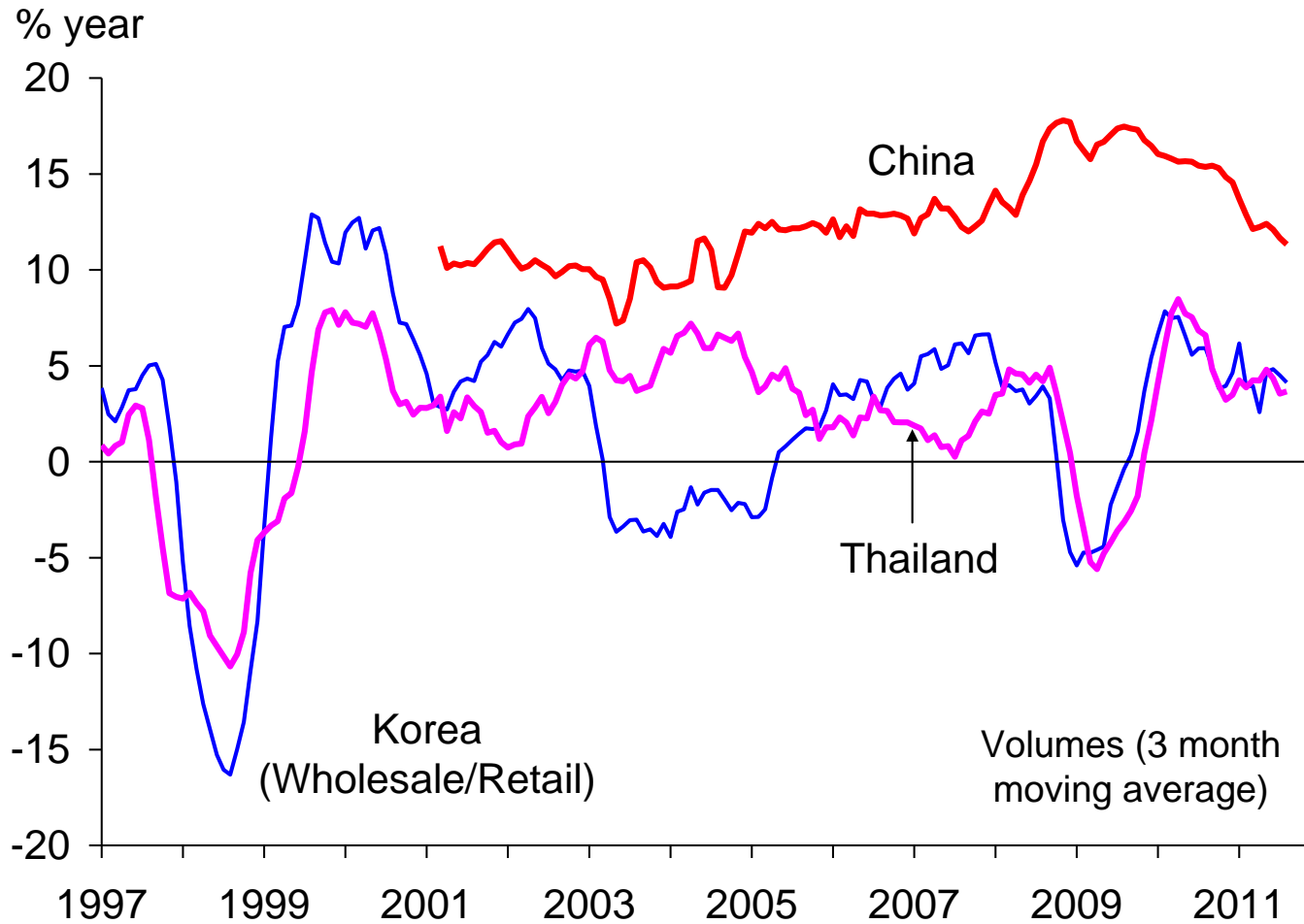
Source : Oxford Economics/Haver Analytics

Policy tightening also in emerging markets...

Change since Jan 2010	Policy rate	Reserve requirements
China	+125bp	+600bp
Brazil	+325bp	+460bp
Russia	-50bp	+150bp
India	+350bp	+100bp
Korea	+125bp	
Turkey	-125bp	+840bp

...and having some bite

Emerging Asia: Retail sales & consumption

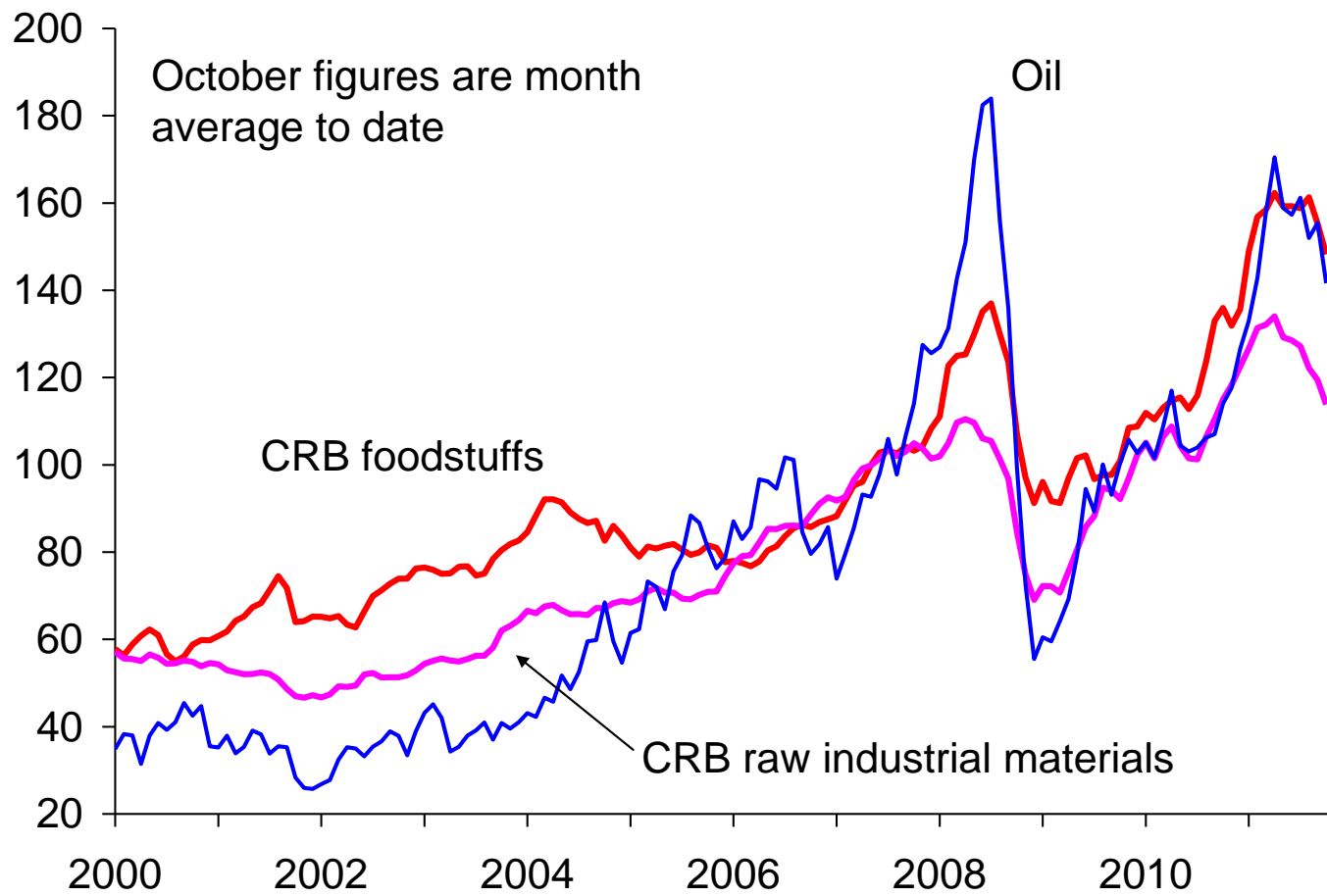


Source: Haver Analytics

Commodity prices have acted like tax rise for AEs

World: Commodity prices

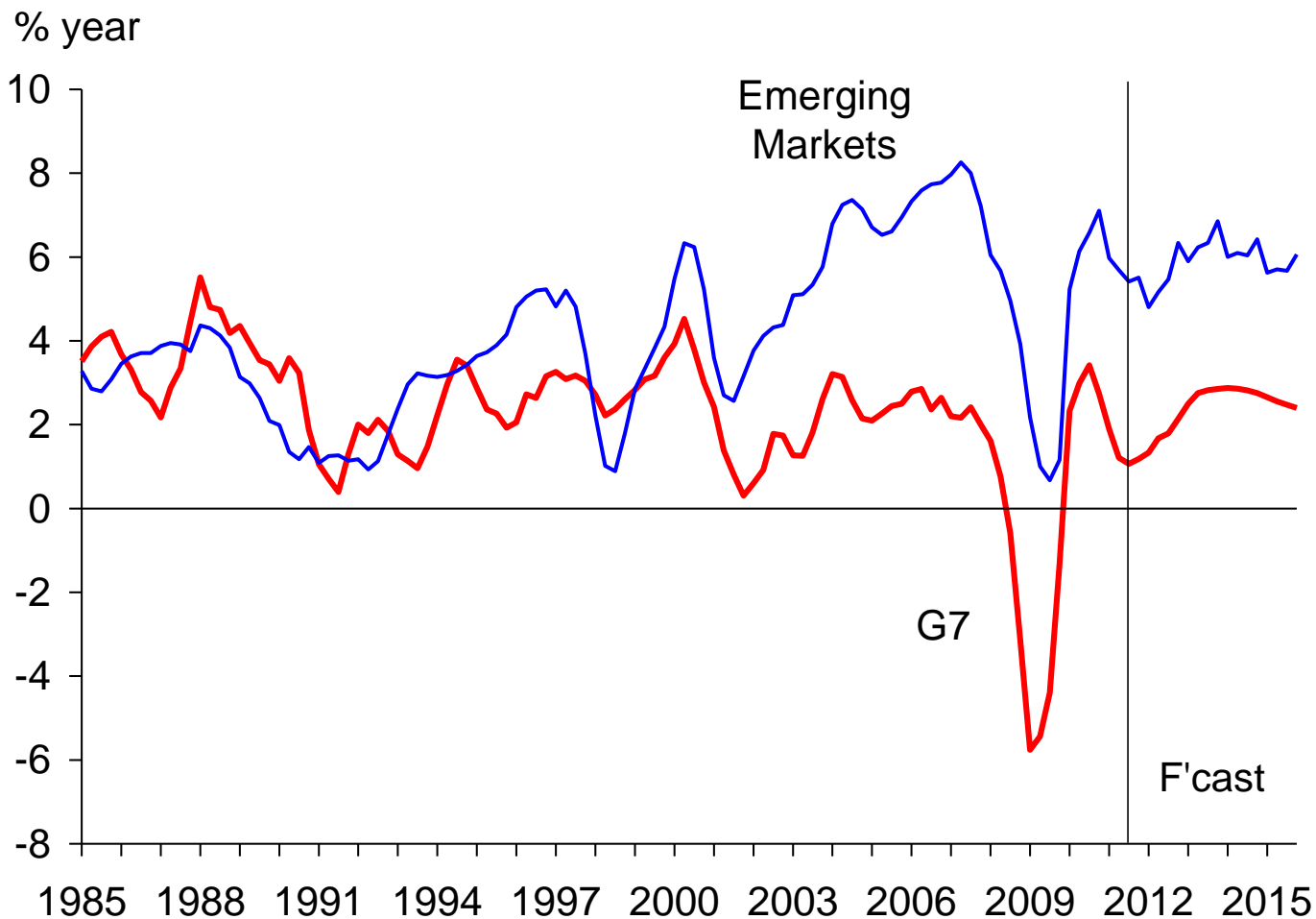
2007=100 (rebased)



Source: Haver Analytics

Our central forecast is for world to stabilise...

G7 & Emerging Markets: GDP growth



Source: Oxford Economics

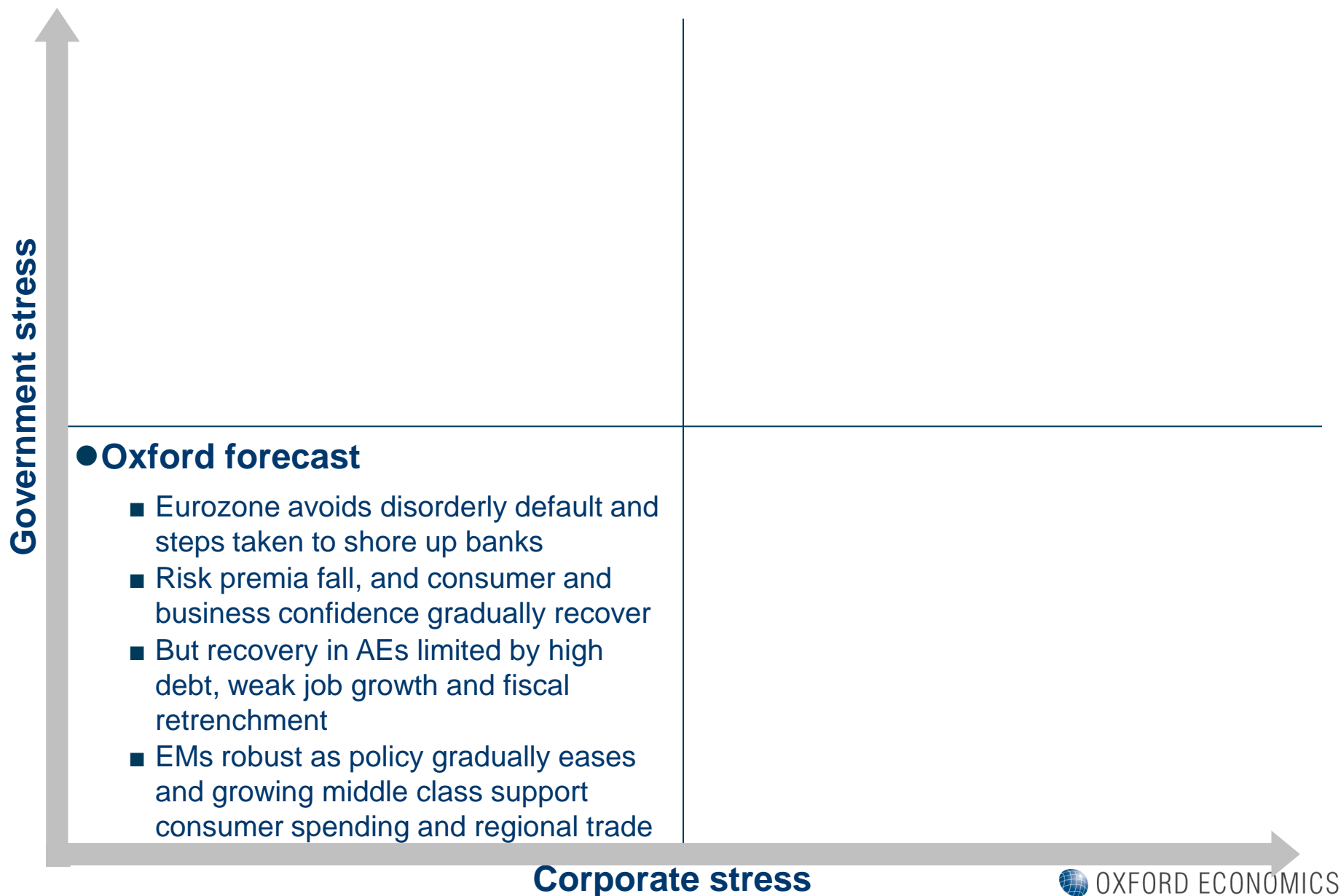
...considering the following

- Assume Eurozone governments will manage an orderly resolution of the sovereign debt crisis
- Further 'unconventional' monetary policy loosening in advanced economies
- Stimulus measures in emerging markets
- Improved real income growth for consumers as inflation falls
- Growing middle class in emerging markets

Holding Eurozone together

- Our central forecasts assumes Greece defaults on its sovereign debt, with haircuts of around 50%.
- Default may happen around the turn of the year, possibly when negotiations about the next tranche of IMF and EU loan take place.
- But – critically - we assume Eurozone governments prepare for it to happen in an orderly fashion:
 - ECB aggressive in buying peripheral government bonds
 - Greek banks supported by ECB in the short term, and government by the IMF and EU for a longer period.
 - Other EU governments inject capital in banks most hit by Greek default
 - Renegotiation of the aid packages granted to Portugal and Ireland with less of a focus on immediate fiscal targets and more focus on structural reforms

But so much could go wrong!



Downside risks to Oxford Economics' forecast

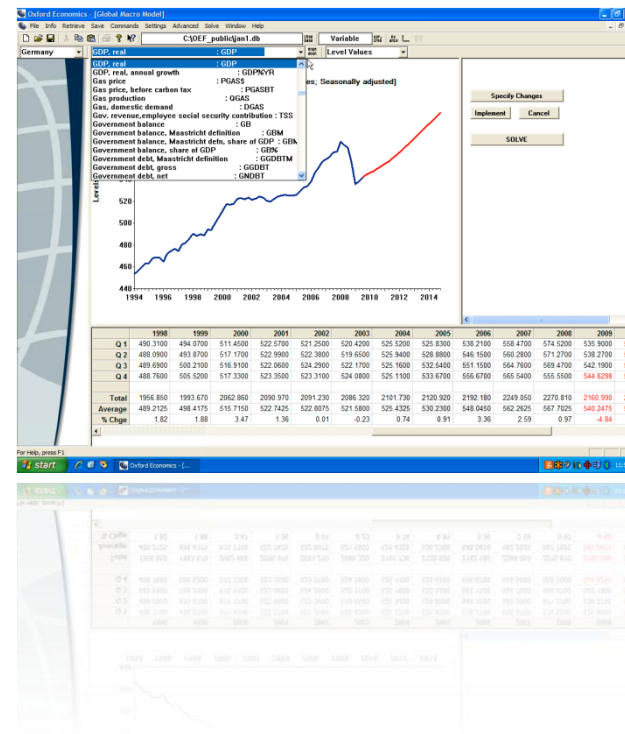


The Oxford Global Economic Model – Overview

- The Oxford Global Economic Model is the most widely used commercial International Macro Model, with clients including international institutions, Ministries of Finance and central banks around the world, and a large number of blue-chip companies.
- It provides a rigorous and consistent structure for forecasting and scenario analysis.
- The Model covers 46 economies in detail, including many emerging markets, and provides headline forecasts for another 30 countries.
- Forecasts 5, 10 and 25 years ahead are updated each month.
- Oxford Economics' powerful user-friendly software is very easy to use.
- Oxford Economics provides telephone and e-mail support, and runs regular training workshops for clients.

Linkages between country models

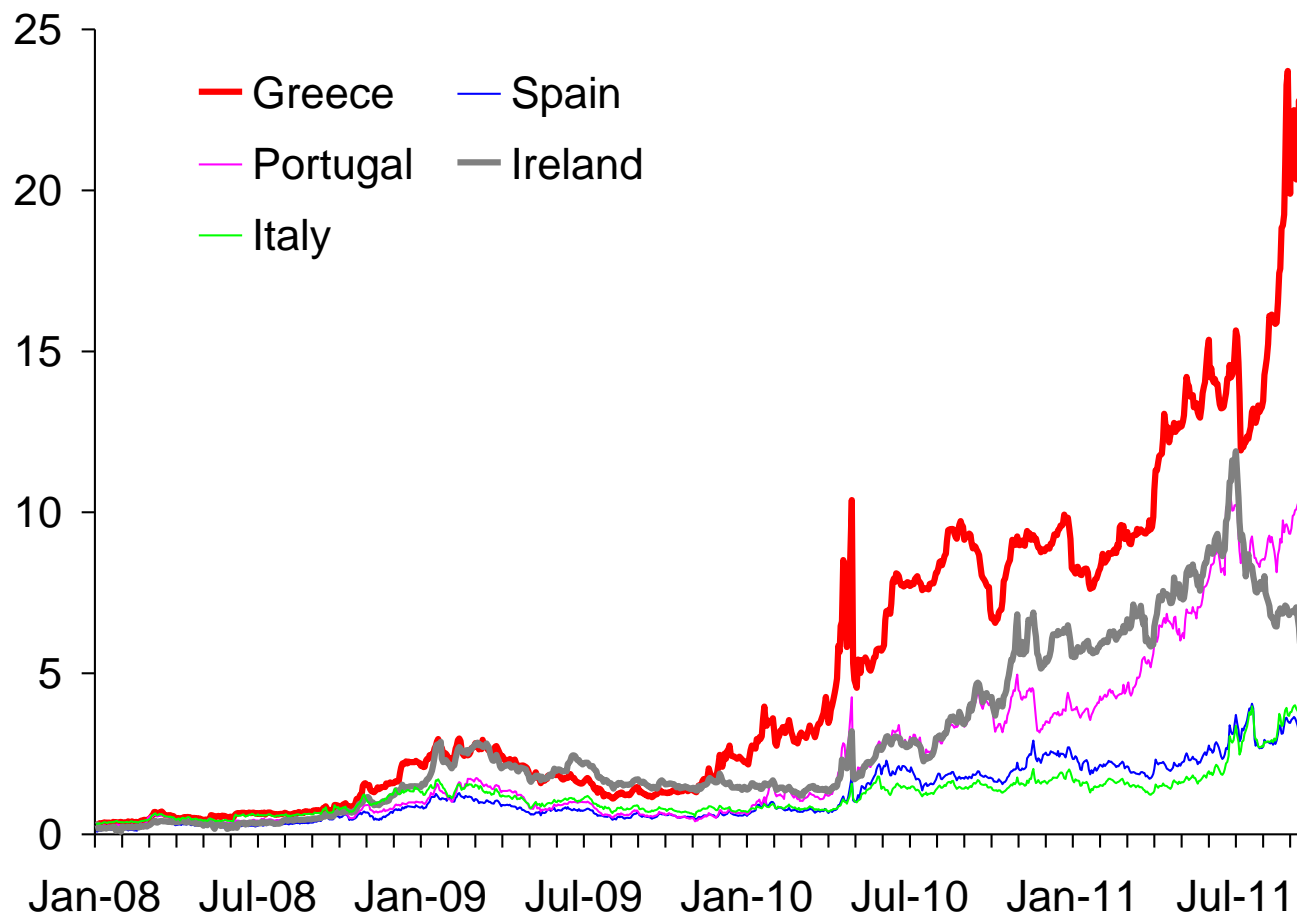
- Trade
- Competitiveness
- Interest Rates and Exchange Rates
- Commodity Prices:
- World Price of Manufactured Goods
- Capital flows



Time running out for the Eurozone...

Eurozone: Credit spreads

% spread of 10-year bonds over German bunds

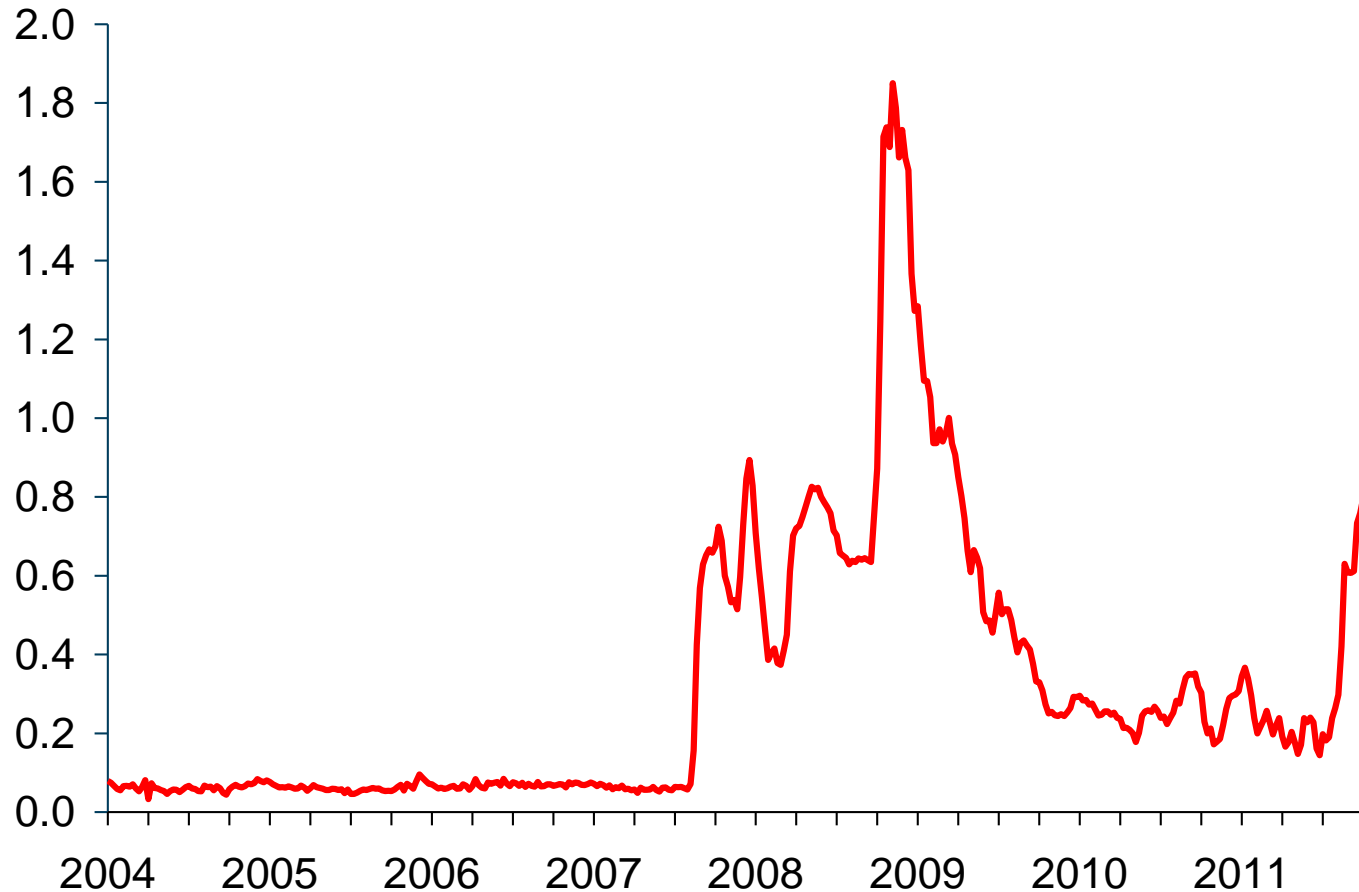


Source :Oxford Economics/Haver Analytics

...and it's looking a lot like 2008

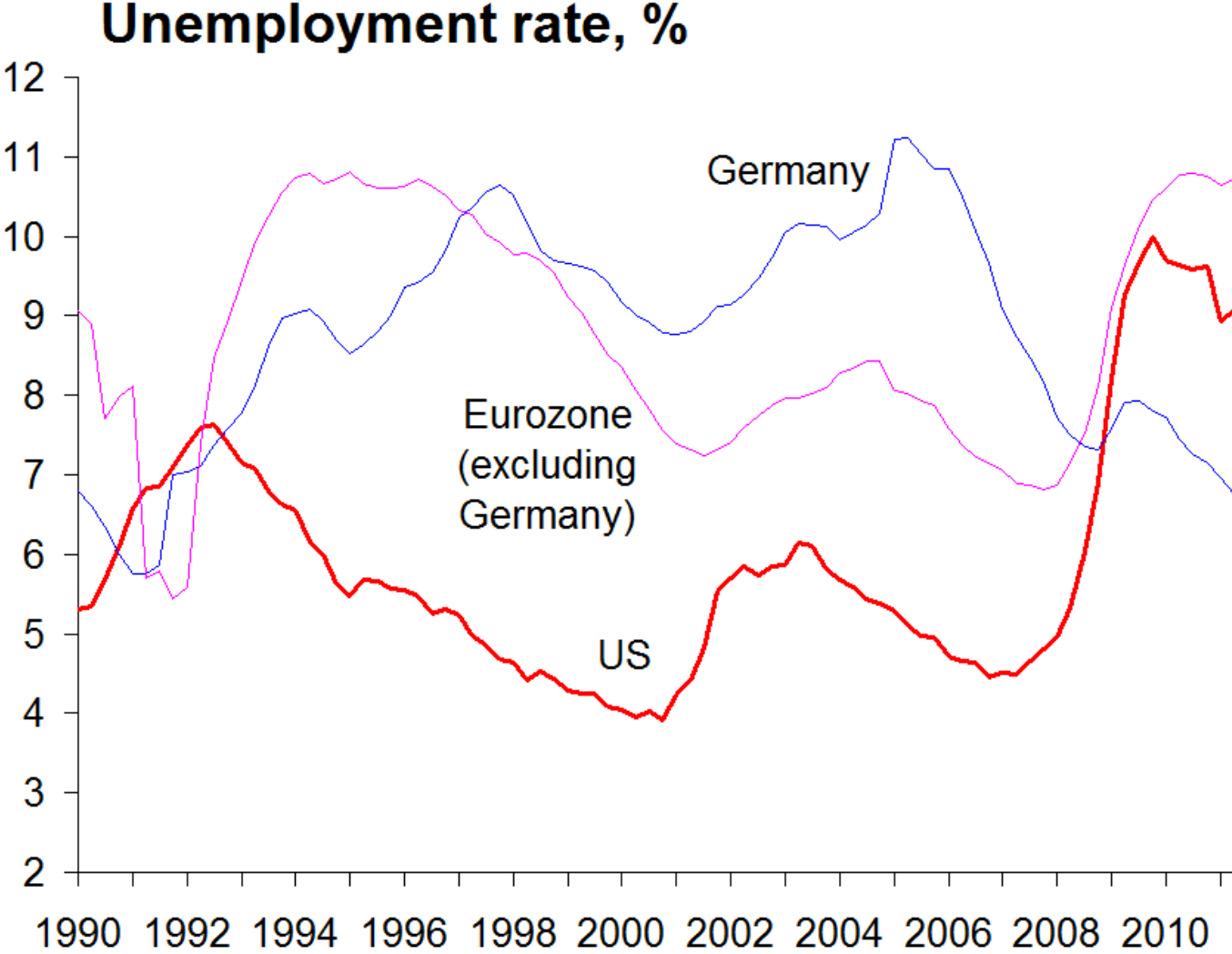
Euro: 3 month libor spread over swap rate

%pt



Source: Oxford Economics; Haver Analytics

Disparities in Europe compound the problems

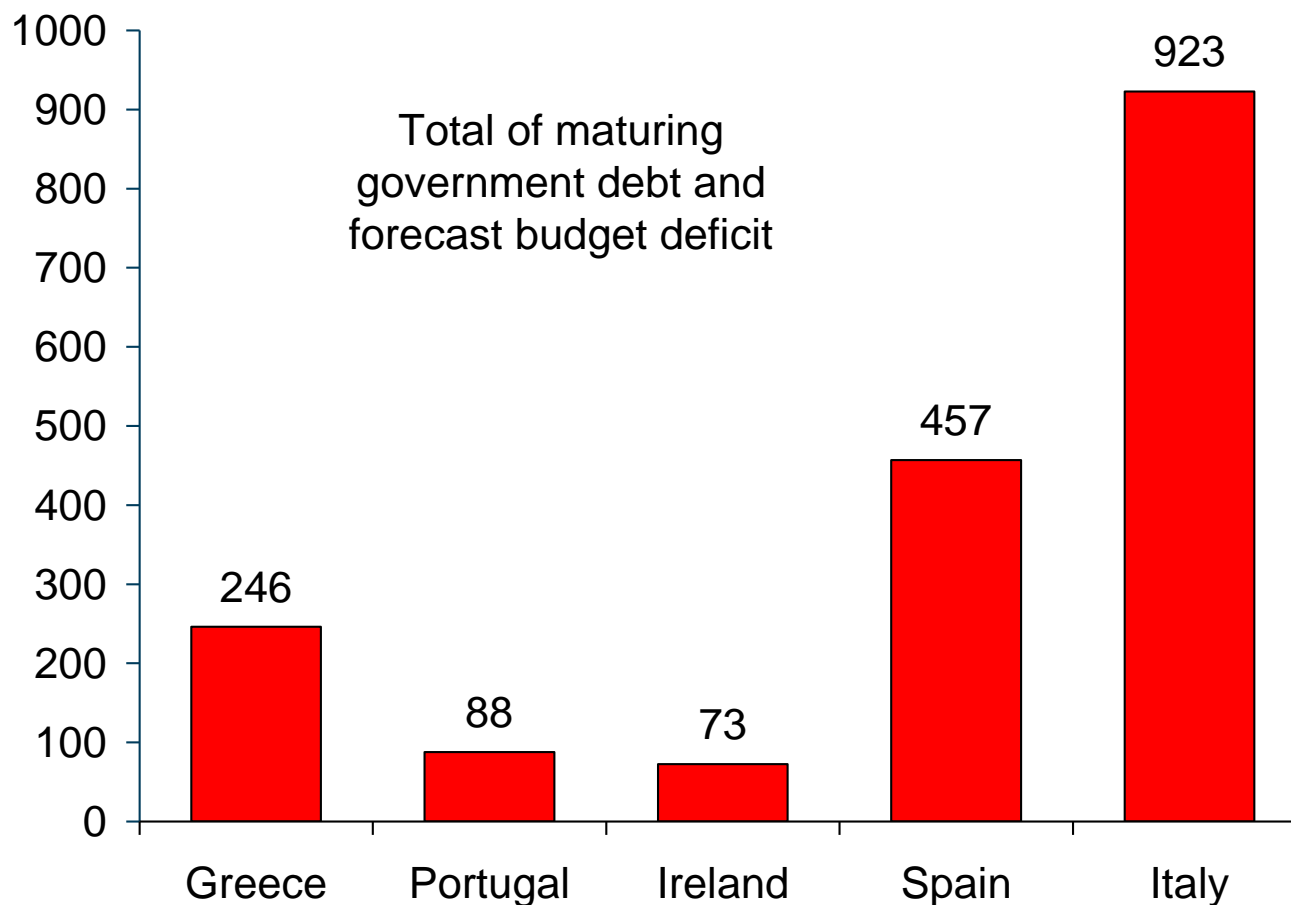


Source : Oxford Economics

Risk that EFSF is overwhelmed

Eurozone: Financing needs 2011-2015

€b

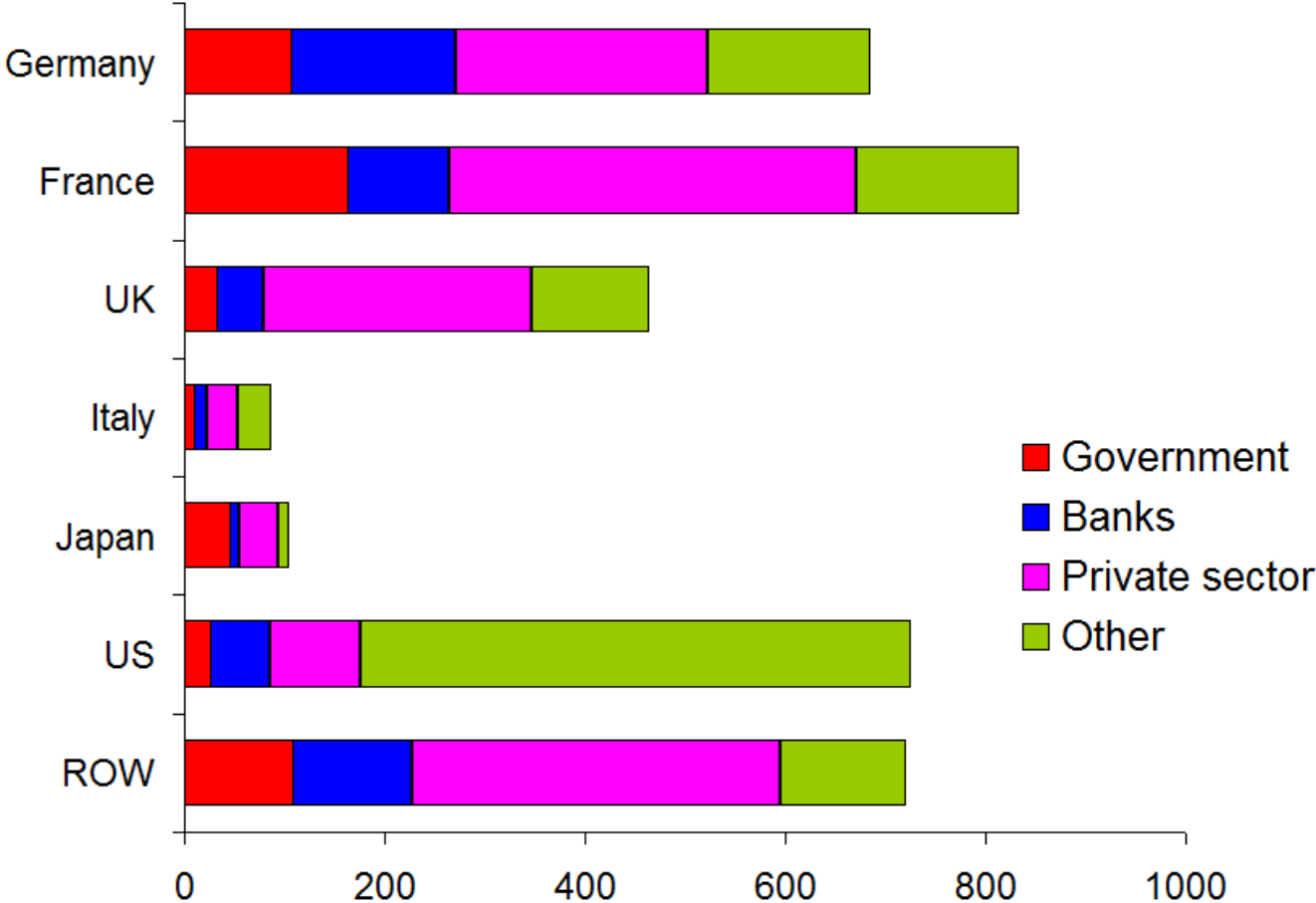


Source: Oxford Economics

But exposure not restricted to European banks

Exposure to peripheral-5 by sector

US\$ bn 2011Q1



Source : Oxford Economics/Haver Analytics

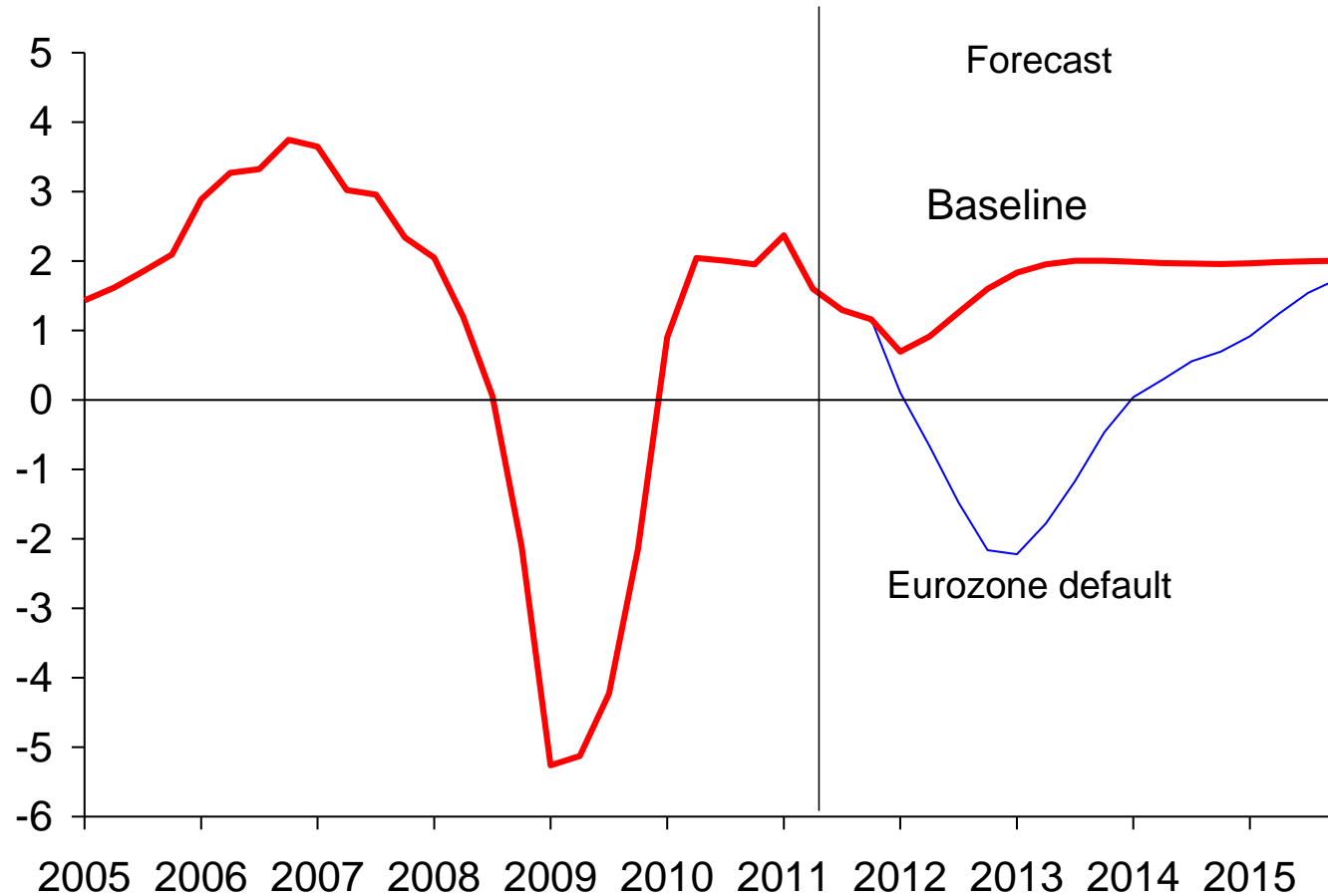
Downside risks to Oxford Economics' forecast



Impact of disorderly Greek default

Eurozone: GDP

% year

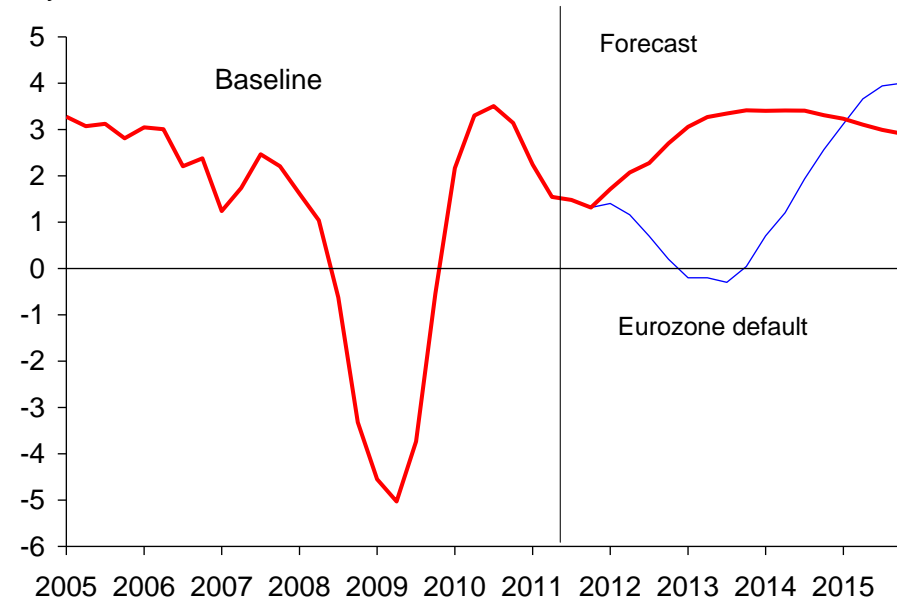


Source : Oxford Economics/Haver Analytics

Impact of disorderly Greek default

US: GDP

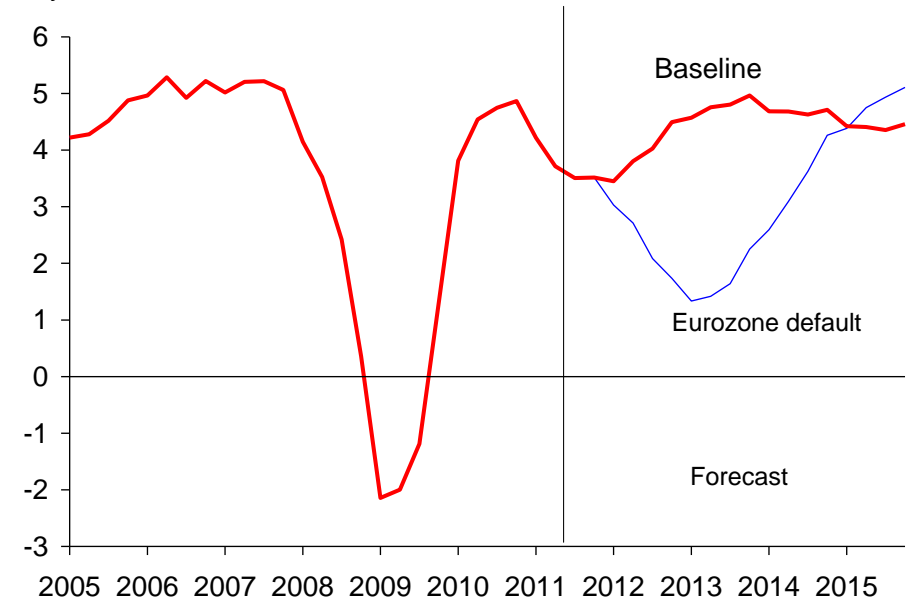
% year



Source : Oxford Economics/Haver Analytics

World: GDP

% year

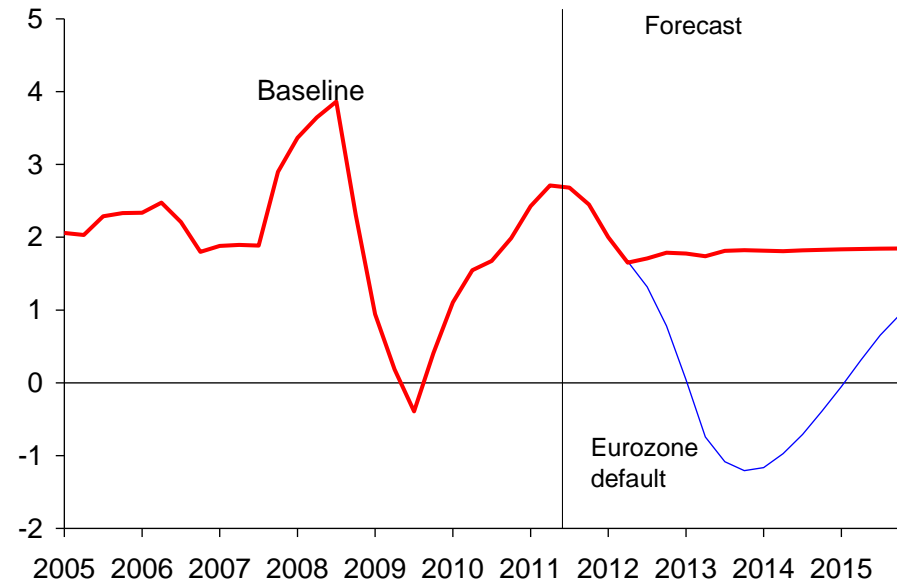


Source : Oxford Economics/Haver Analytics

Impact of disorderly Greek default

Eurozone: CPI

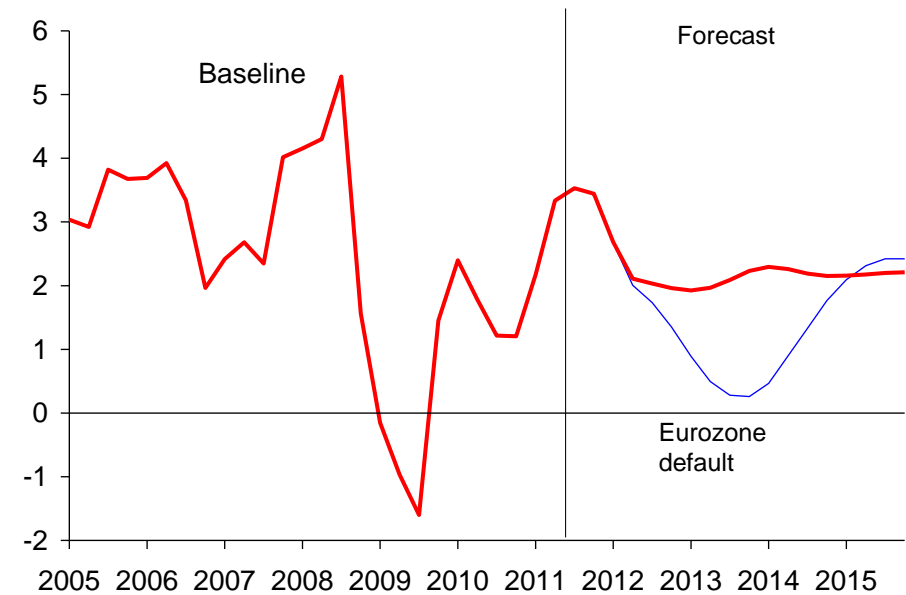
% year



Source : Oxford Economics/Haver Analytics

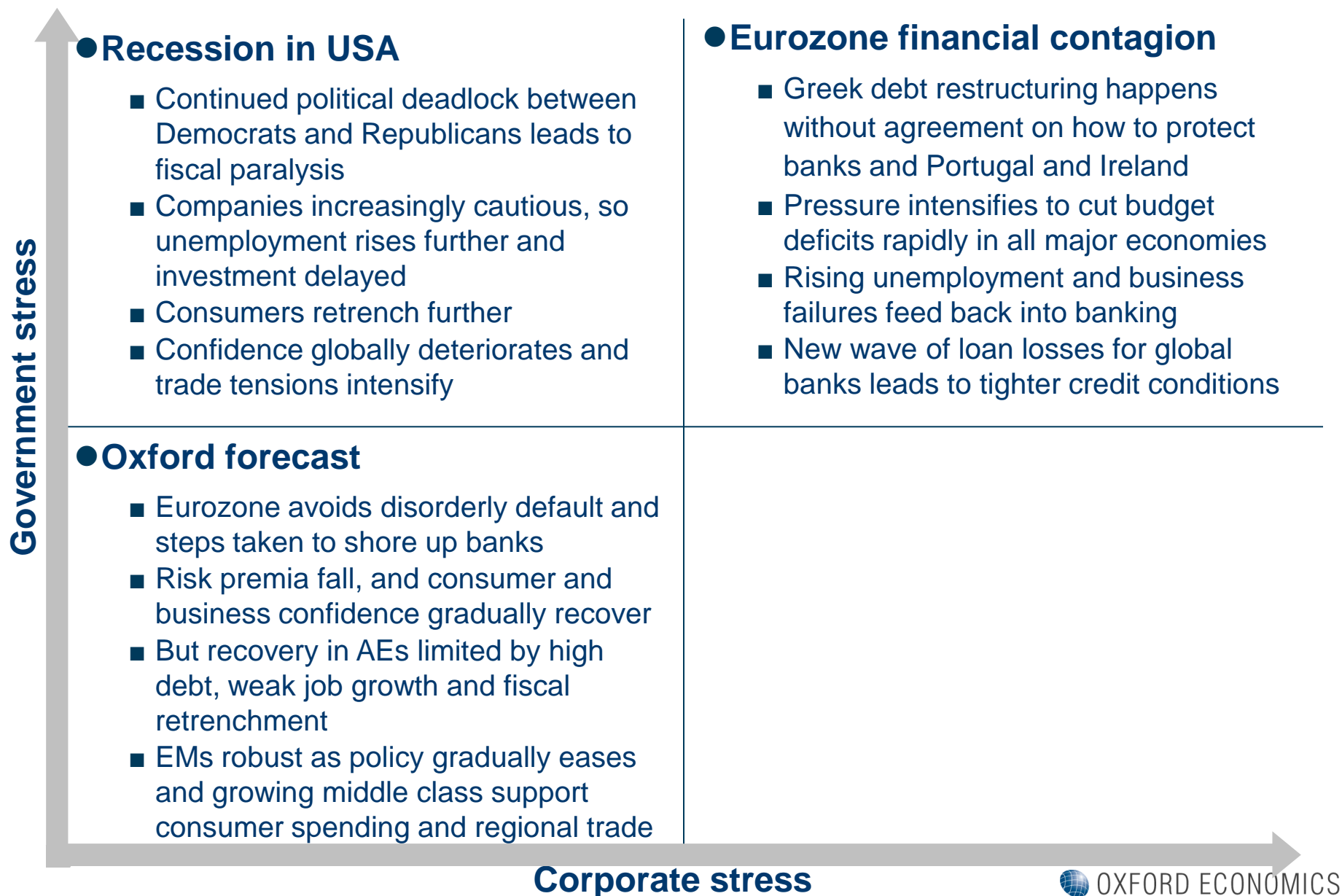
US: CPI

% year

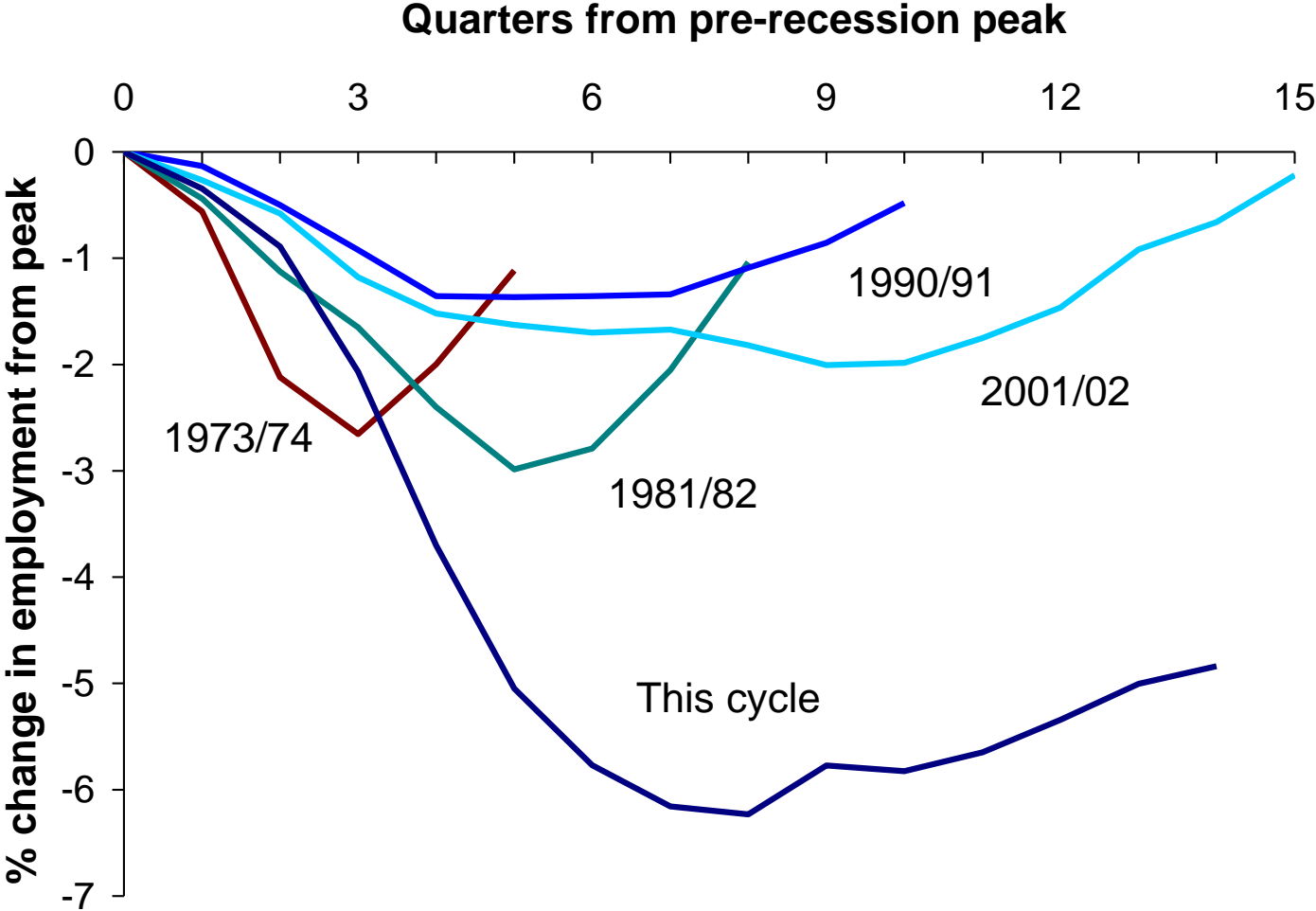


Source : Oxford Economics/Haver Analytics

Downside risks to Oxford Economics' forecast

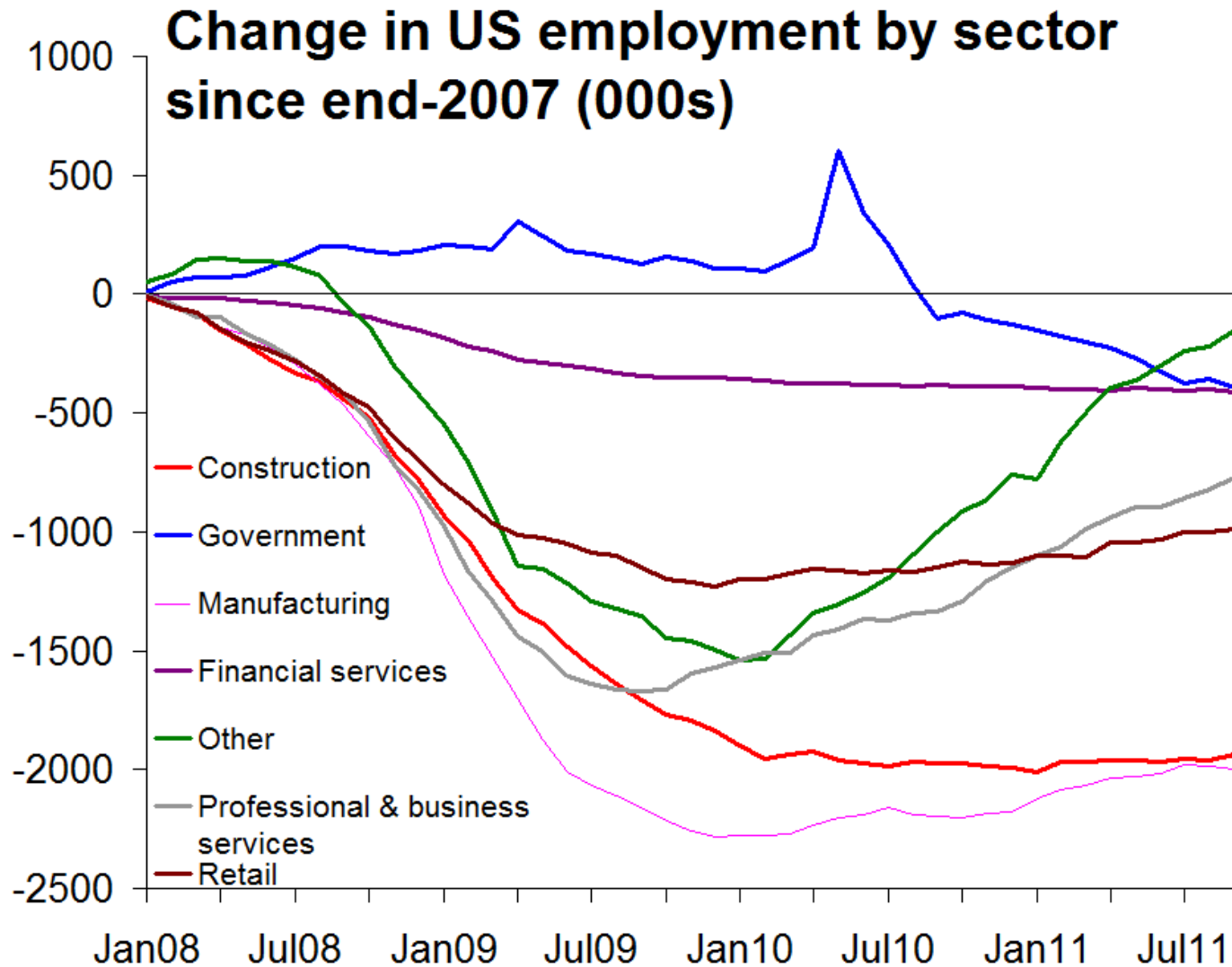


US recovery fragile...



Source : Oxford Economics/Haver Analytics

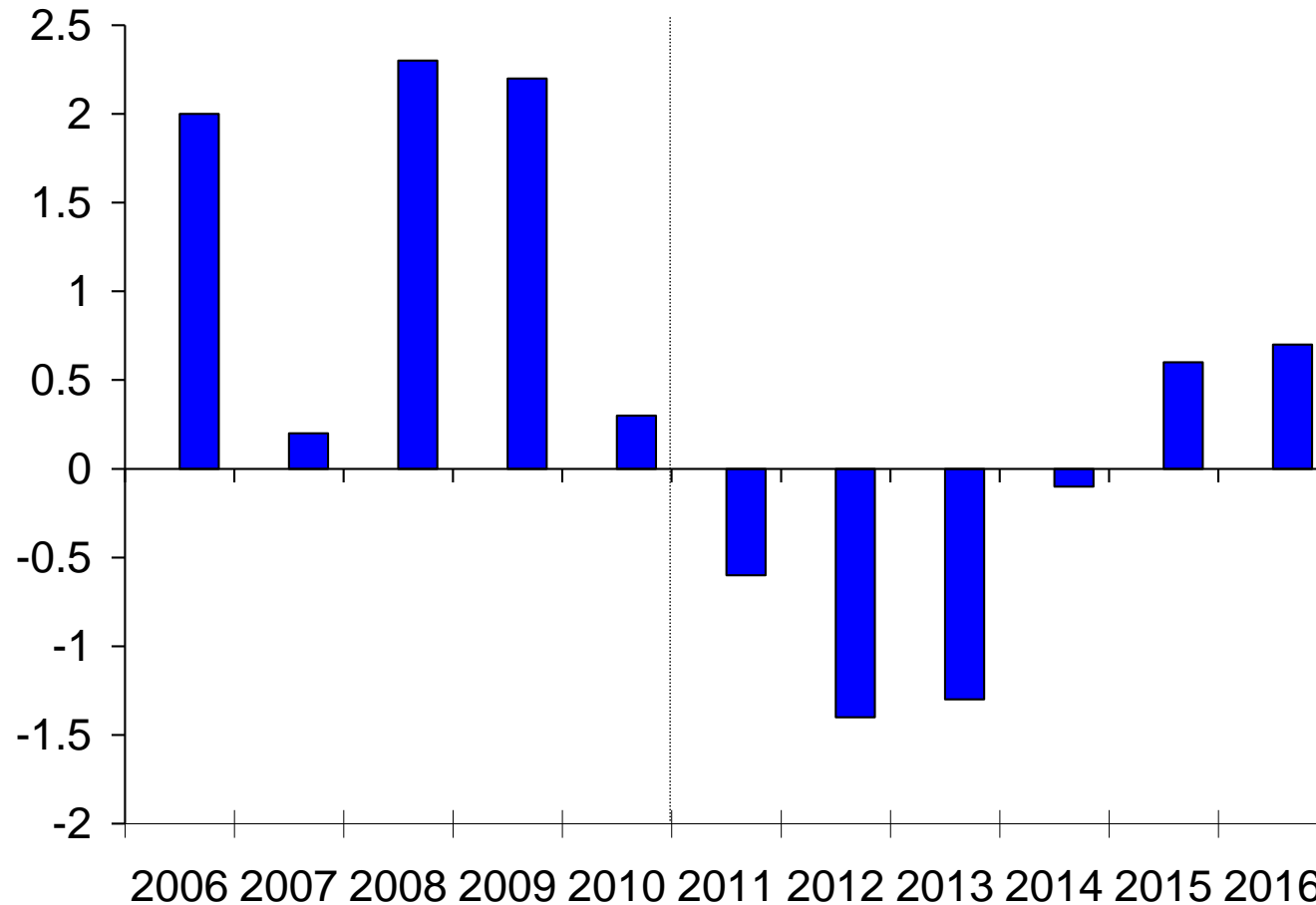
...and risk of sustained high unemployment



Source : Bureau of Labor Statistics

How tight will US fiscal policy be?

US: Change in cyclically-adjusted structural balance (sign reversed),
% of potential GDP

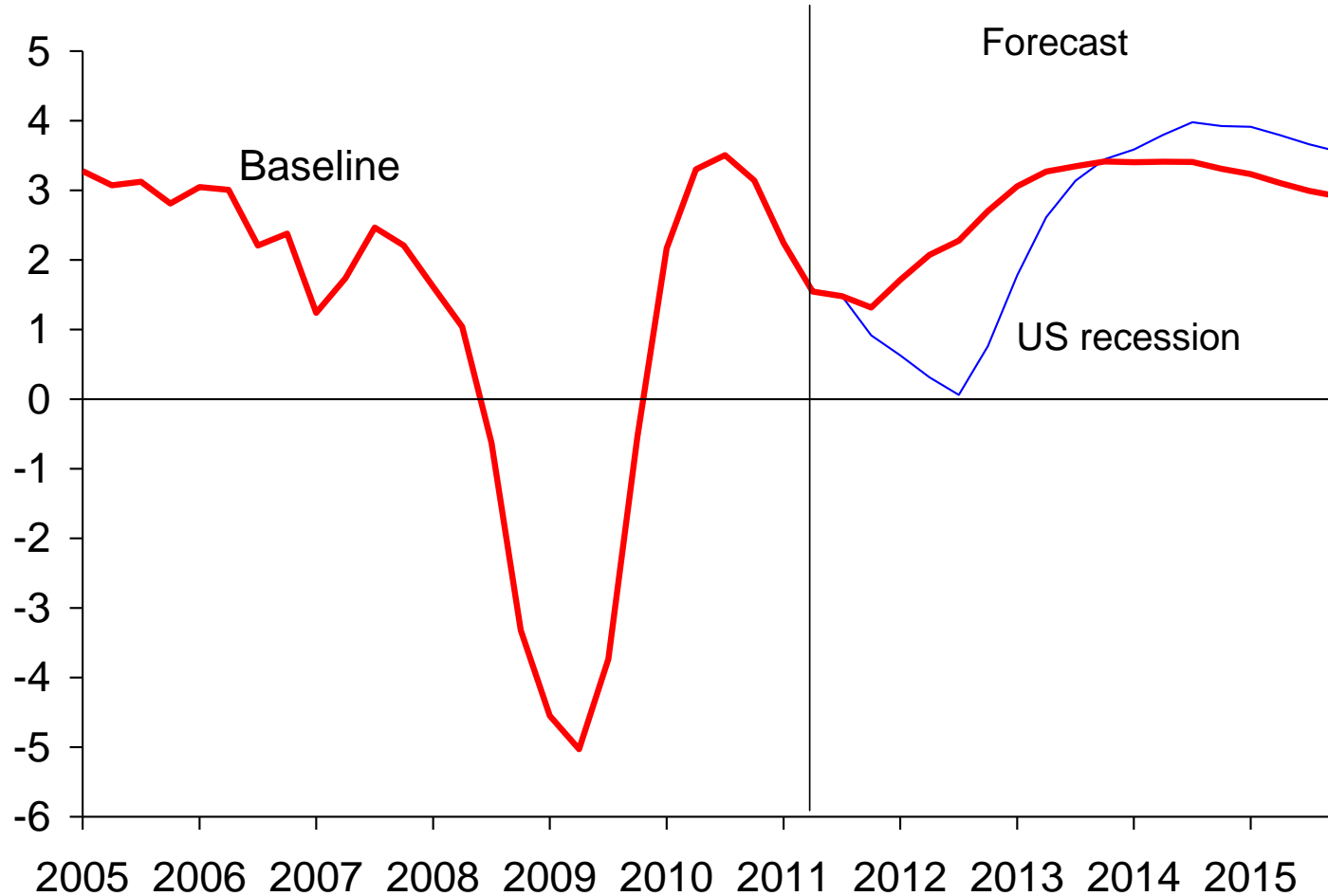


Source : Oxford Economics/Haver Analytics

Impact of a US double-dip

US: GDP

% year

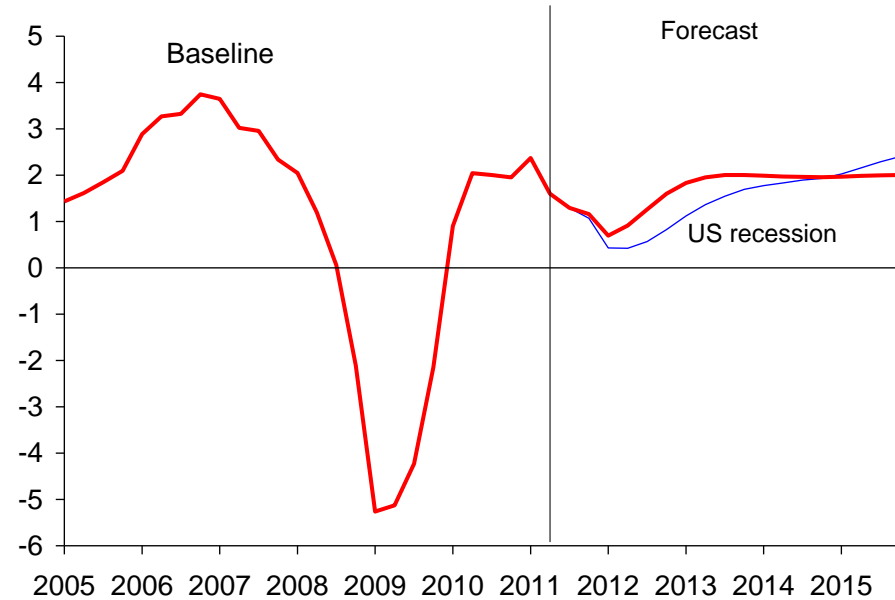


Source : Oxford Economics/Haver Analytics

Impact of a US double-dip

Eurozone: GDP

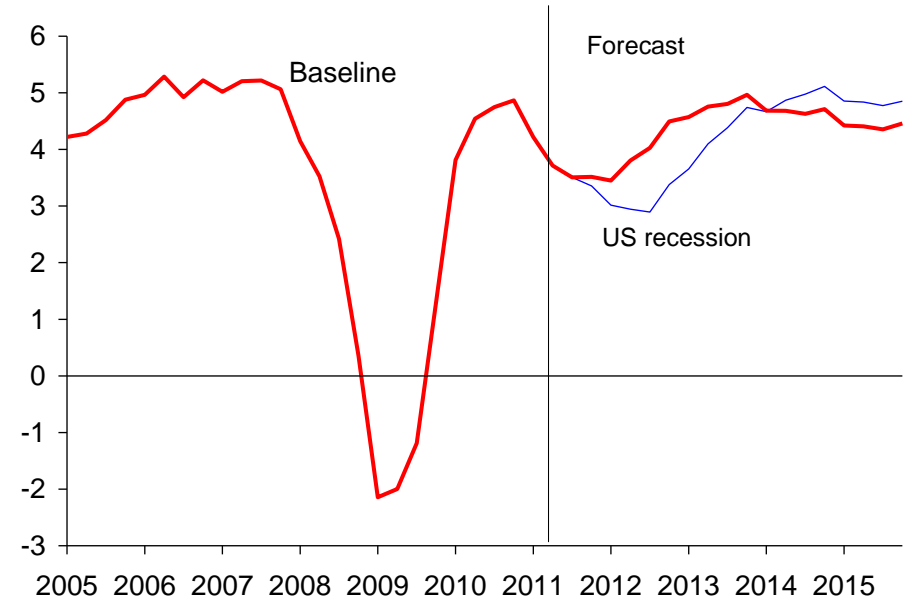
% year



Source : Oxford Economics/Haver Analytics

World: GDP

% year

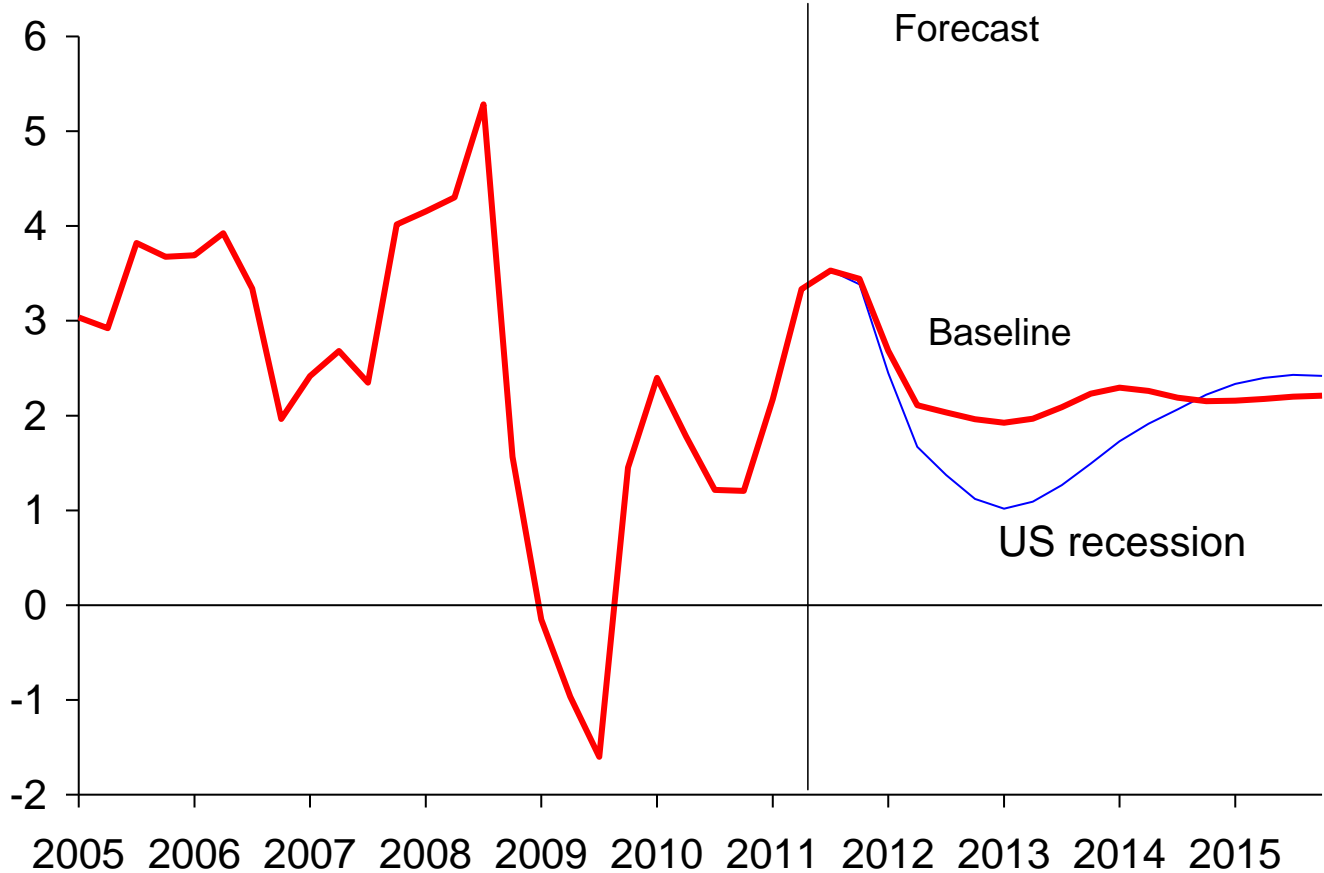


Source : Oxford Economics/Haver Analytics

But resources are significant to support growth

US: CPI

% year



Source : Oxford Economics/Haver Analytics

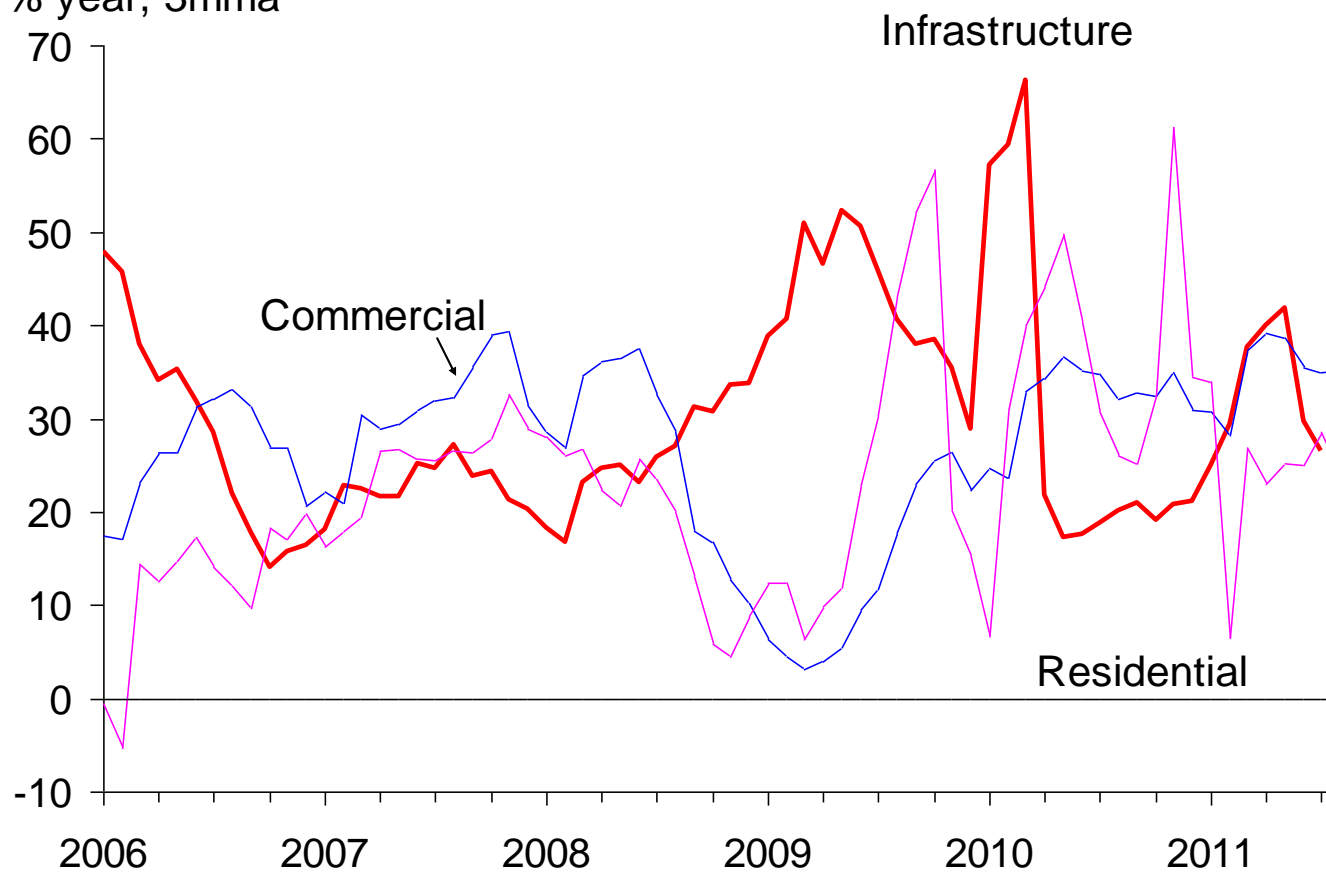
Downside risks to Oxford Economics' forecast



China's growth boosted by construction boom

China: Building Investment

% year, 3mma

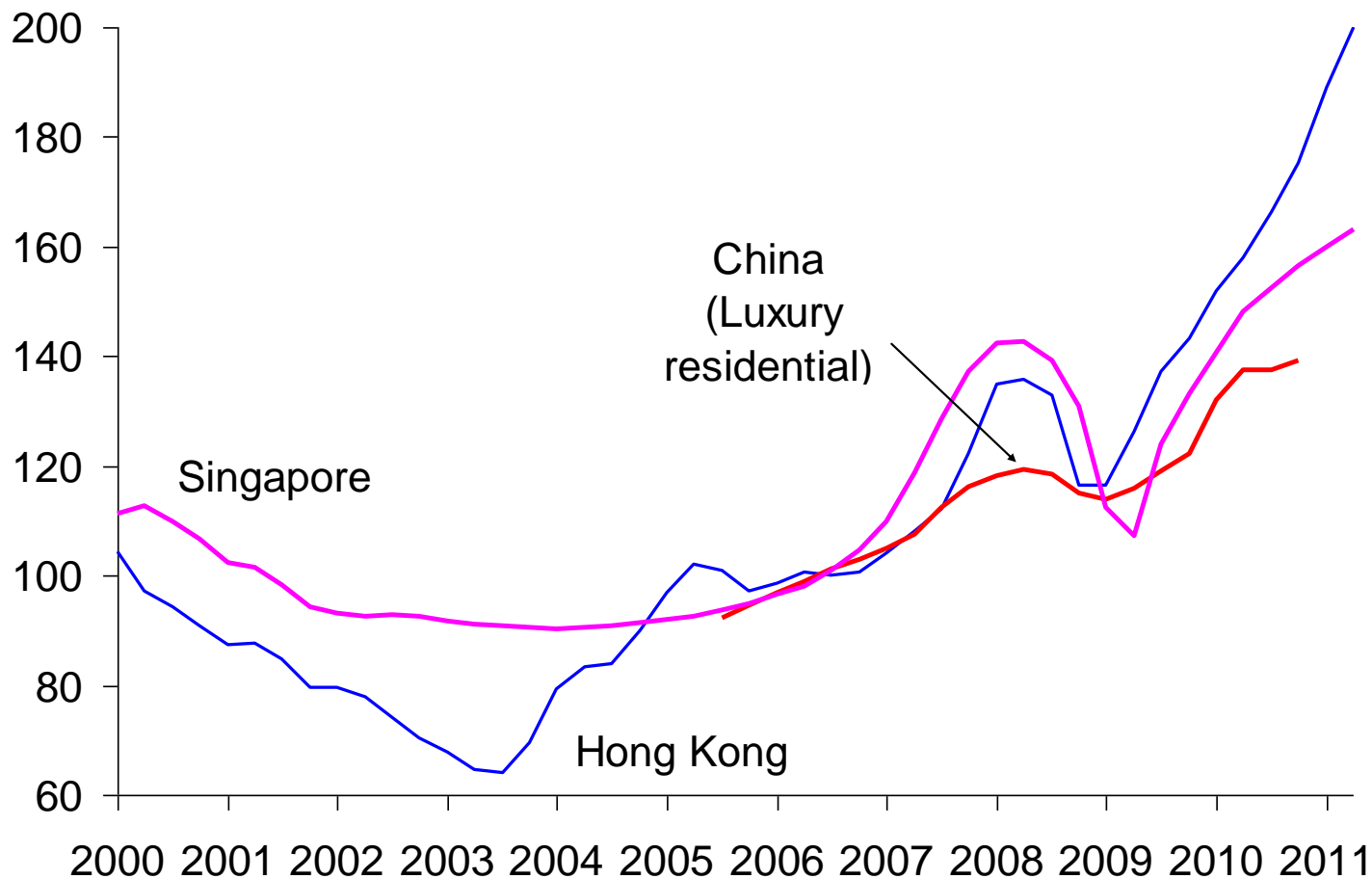


Source : CEIC, Oxford Economics' estimates

Is China heading for property market crisis?

Emerging Asia: Residential property prices

Index (2006=100, quarterly)

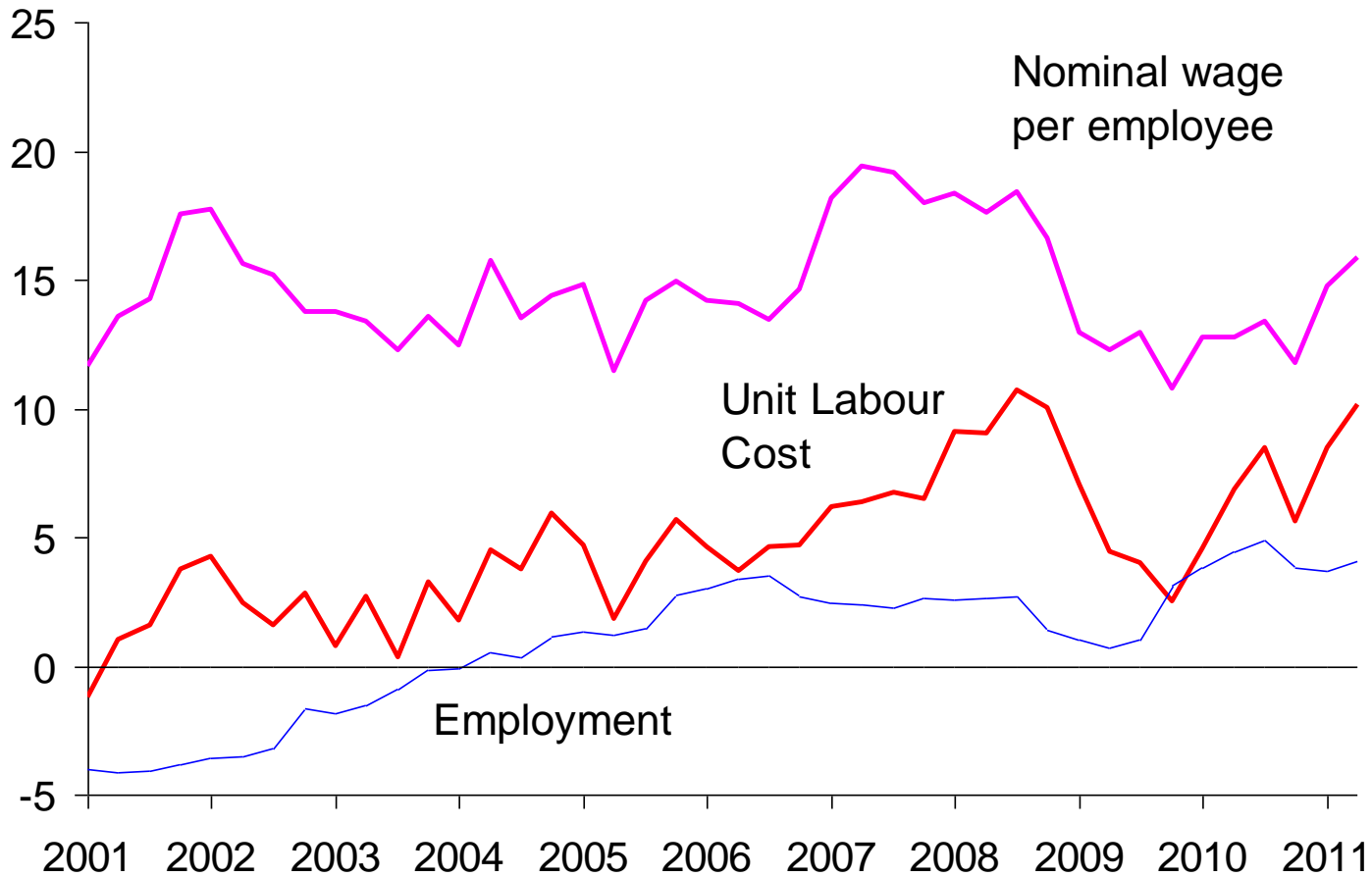


Source: Haver Analytics

And risks from rising wage inflation?

Labour Market Conditions: All Industries

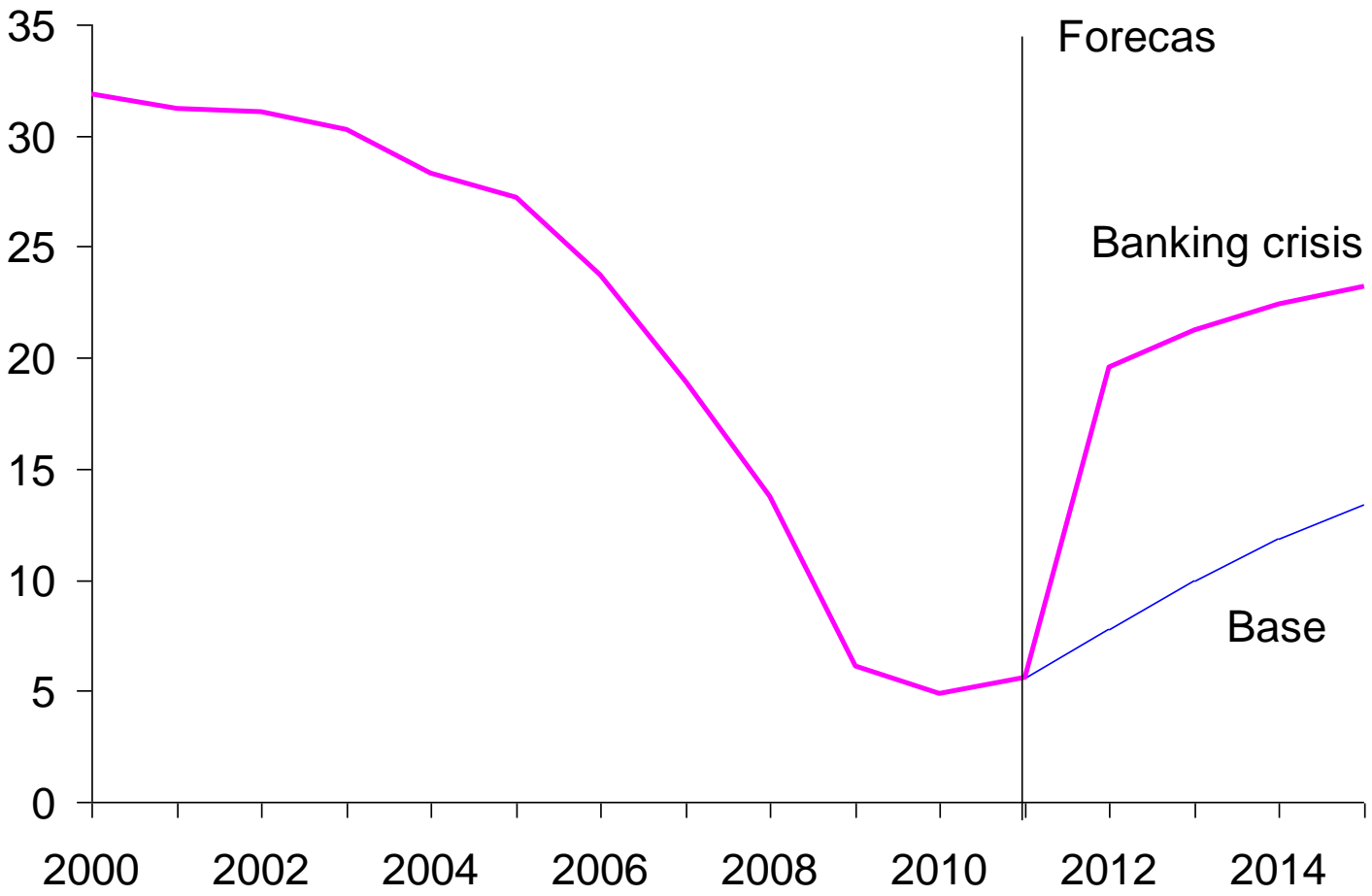
% year



Source : Oxford Economics/CEIC

What if the property crash turn banking sector sour?

China: Non-performing loans % GDP

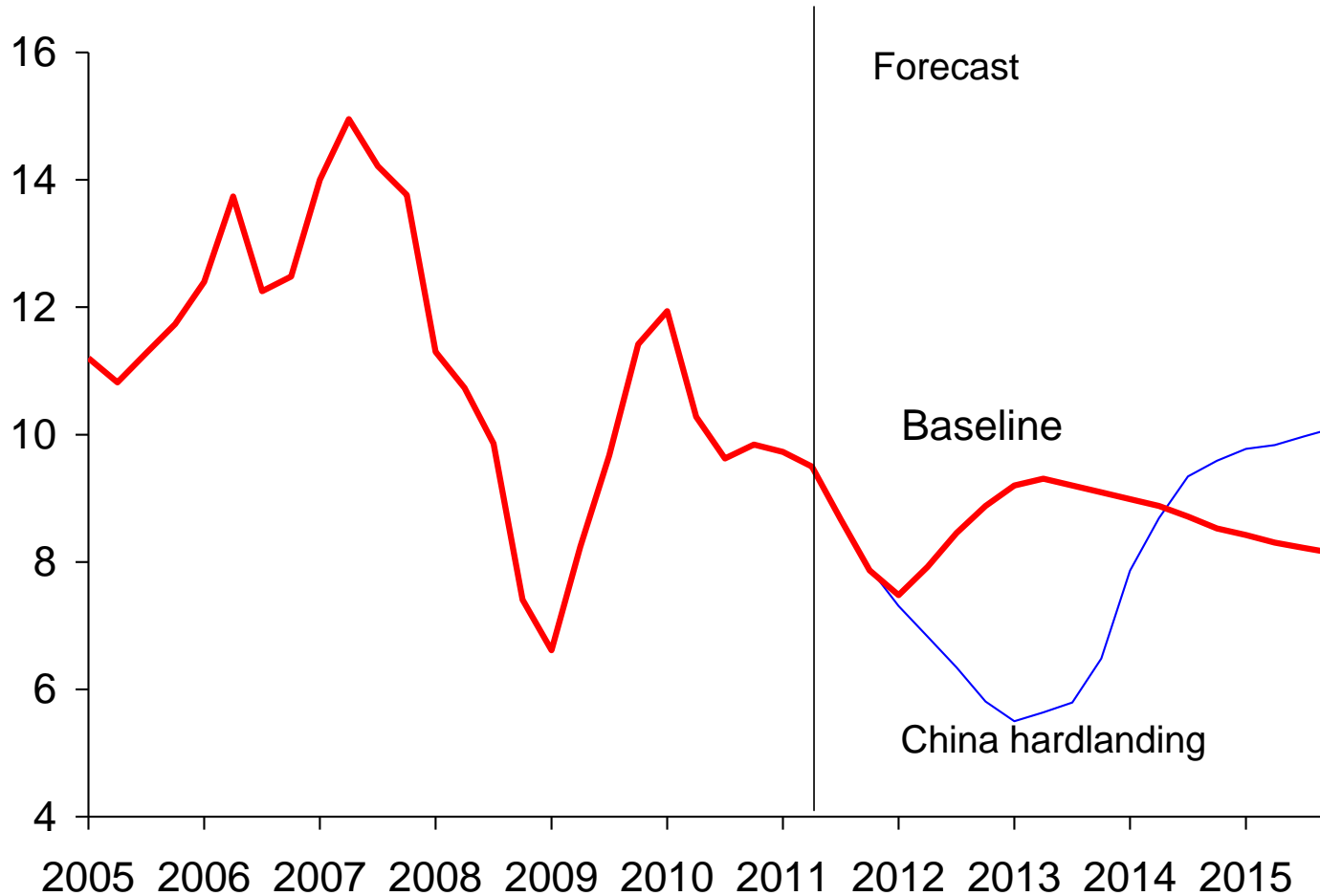


Source : Oxford Economics

Impact of a China hard landing

China: GDP

% year

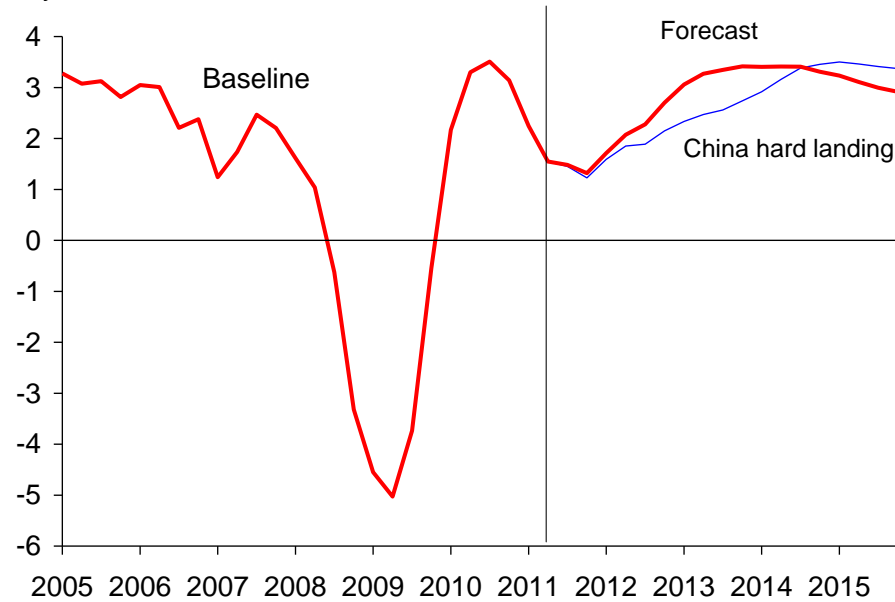


Source : Oxford Economics/Haver Analytics

Impact of a China hard landing

US: GDP

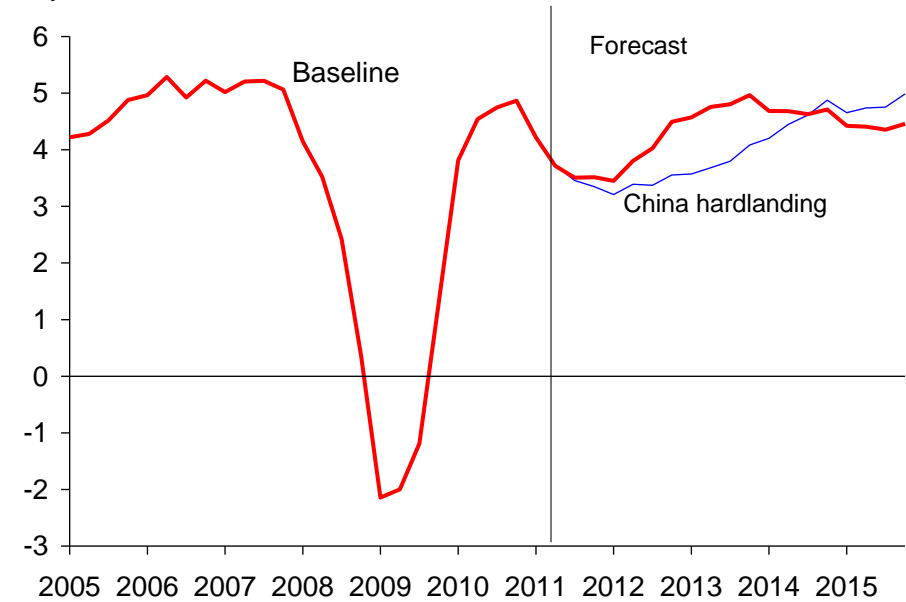
% year



Source : Oxford Economics/Haver Analytics

World: GDP

% year

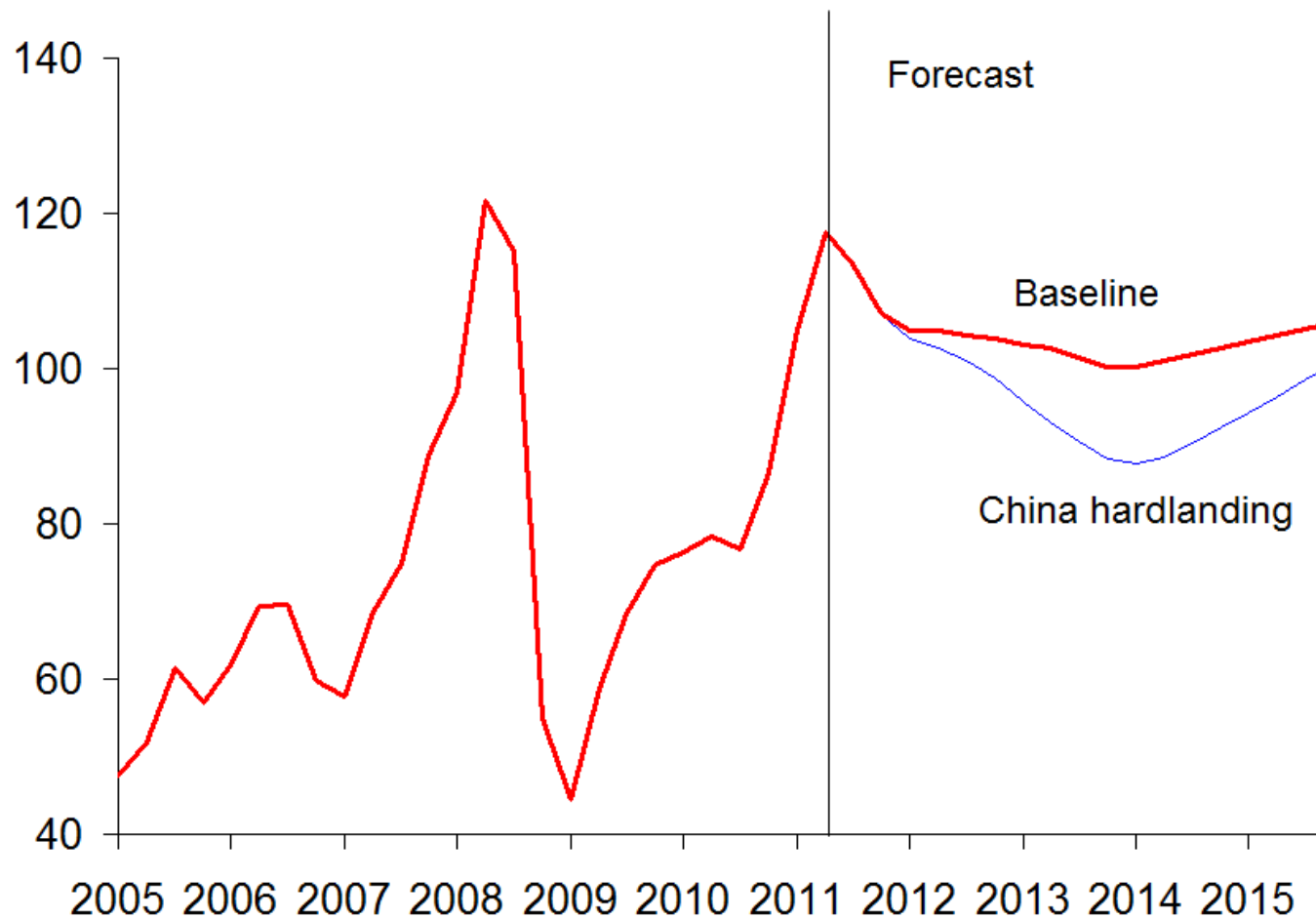


Source : Oxford Economics/Haver Analytics

Implications for oil prices

World: Oil price

USD/barrel

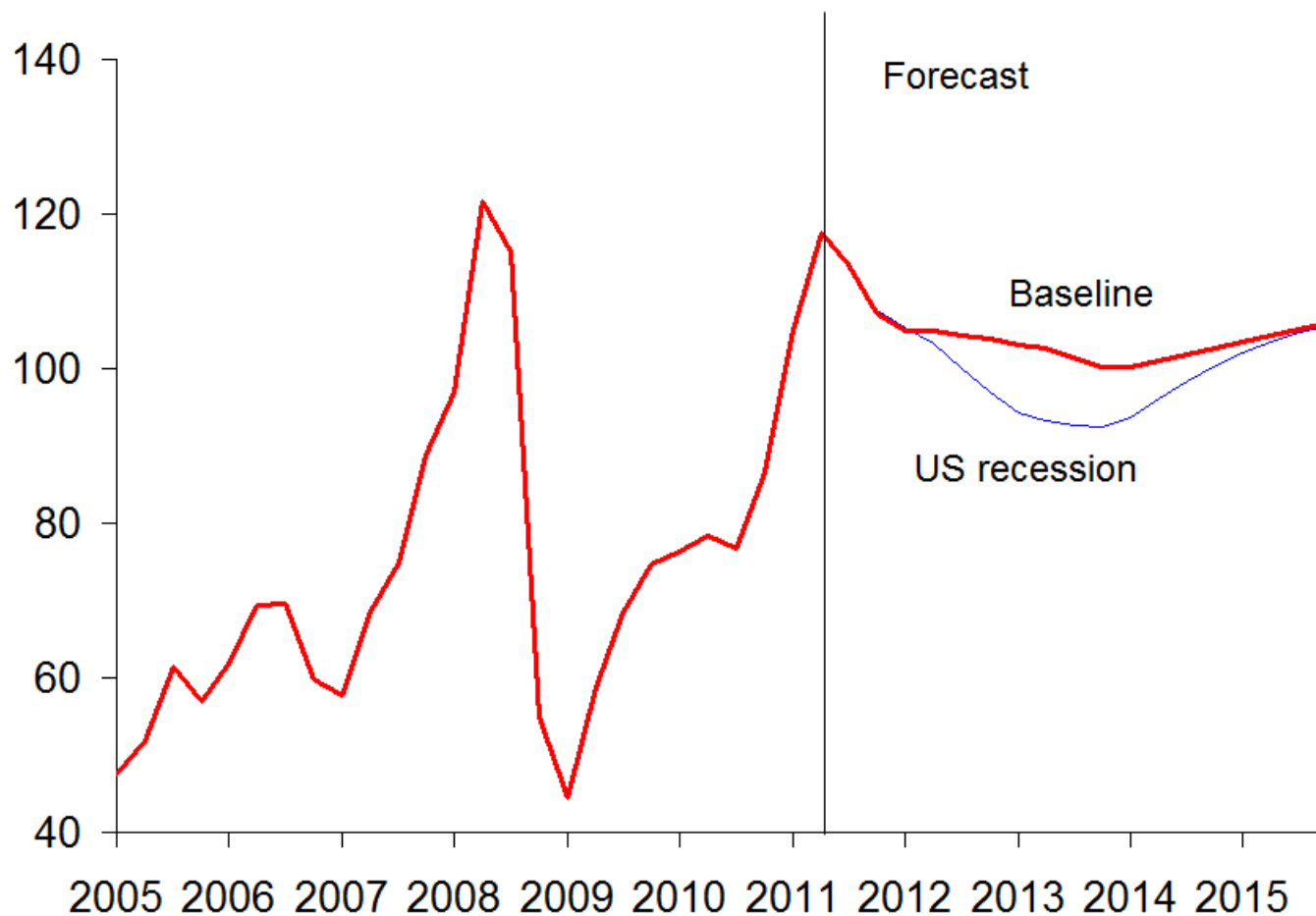


Source : Oxford Economics/Haver Analytics

Implications for oil prices

World: Oil price

USD/barrel

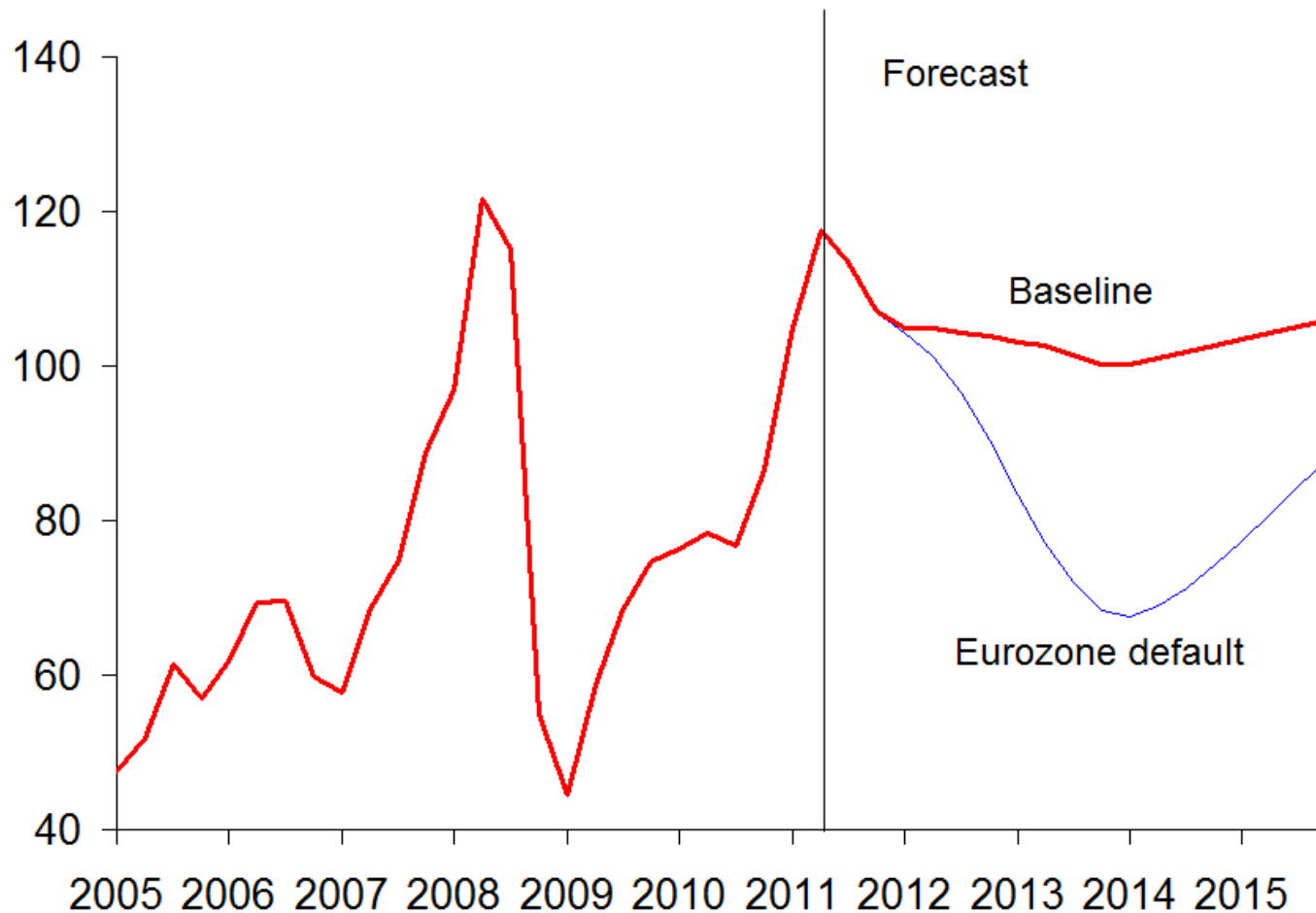


Source : Oxford Economics/Haver Analytics

Implications for oil prices

World: Oil price

USD/barrel



Source : Oxford Economics/Haver Analytics

Oxford Economics' forecast

Alternative GDP growth forecasts					
	2009	2010	2011	2012	2013
Oxford Forecast (45%)					
US	-3.5	3.0	1.7	2.1	3.2
Eurozone	-4.2	1.7	1.6	0.6	1.8
China	9.2	10.3	8.8	8.3	9.2
World 2005 PPP	-1.0	4.5	3.7	3.7	4.7
Eurozone financial contagion (20%)					
US	-3.5	3.0	1.7	0.8	-0.2
Eurozone	-4.2	1.7	1.6	-1.6	-1.6
China	9.2	10.3	8.8	6.3	4.9
World 2005 PPP	-1.0	4.5	3.7	2.1	1.6
US recession (15%)					
US	-3.5	3.0	1.6	0.3	2.7
Eurozone	-4.2	1.7	1.6	0.0	1.3
China	9.2	10.3	8.8	6.9	8.3
World 2005 PPP	-1.0	4.5	3.7	2.8	4.2
China hard landing (10%)					
US	-3.5	3.0	1.6	1.8	2.4
Eurozone	-4.2	1.7	1.6	0.3	1.4
China	9.2	10.3	8.9	6.5	5.9
World 2005 PPP	-1.0	4.5	3.7	3.1	3.7
Corporate reawakening (10%)					
US	-3.5	3.0	1.7	2.9	4.5
Eurozone	-4.2	1.7	1.6	1.1	2.8
China	9.2	10.3	8.8	9.6	10.2
World 2005 PPP	-1.0	4.5	3.7	4.5	5.9

Oxford Economics' forecast

World GDP Growth % Change on Previous Year						
	2010	2011	2012	2013	2014	2015
US	3.0	1.7	2.1	3.2	3.5	3.1
Japan	4.0	-0.6	2.2	3.0	2.4	1.5
Eurozone	1.7	1.6	0.6	1.8	2.0	2.0
of which:						
Germany	3.6	3.0	1.1	2.0	2.1	2.0
France	1.4	1.6	0.7	1.8	2.0	2.0
Italy	1.2	0.6	0.2	0.9	1.3	1.7
UK	1.4	1.0	1.7	2.8	2.8	2.7
China	10.3	8.8	8.3	9.2	8.8	8.3
India	8.9	7.1	7.7	9.6	9.2	8.3
Other Asia	7.1	5.1	4.9	5.9	6.0	5.7
Mexico	5.4	3.8	4.3	5.1	4.8	4.0
Brazil	7.5	3.6	3.7	5.0	4.3	4.1
Other Latin America	4.3	4.9	3.8	4.5	4.2	3.9
Eastern Europe	0.9	3.7	3.5	4.3	4.4	4.2
MENA	4.9	4.7	4.5	5.4	5.3	4.9
World	3.8	2.8	2.9	3.9	4.0	3.7
World (PPP)	4.5	3.7	3.7	4.7	4.7	4.5