Global economic outlook – from risk to opportunity

Adrian Cooper
acooper@oxfordeconomics.com

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Oxford Economics

- Oxford Economics is one of the world’s foremost independent providers of global economic research and consulting.
- Founded in 1981 as a joint venture with Templeton College in Oxford University.
- Team of 75 in-house economists.
- Forecasts for 190 countries, 100 industries and 2,600 locations globally.
- Unique Global Economic Models.
- Detailed scenario capability.
- Links to Oxford University and other leading research institutes.
Our clients represent a global who’s who
Global growth still weak…

G7 & Emerging Markets: GDP growth

Source: Oxford Economics
…but at a turning point?

World: Stockmarkets

Jan 1996=100

S&P 500

MSCI Emerging Markets index

FTSE 100

Nikkei

Source: Haver Analytics
Worst of the fiscal cliff has been avoided

US: New orders

Durable goods orders (LHS)

Nondefense capital goods excluding aircraft (RHS)

Source: Census Bureau/Haver Analytics
ECB has averted near-term Eurozone collapse

Sovereign bond spreads

% spread over German bonds

Italy

Spain

Source: Oxford Economics\Haver Analytics
Signs that Chinese downturn is coming to an end

China: Industrial output, retail sales & exports

Source: NBS
Risks are shifting to the upside

- **Middle East tensions (5%)**
  - Political tensions escalate in Egypt, Syria and Iran
  - Concerns about stability in the region push oil prices to over $200/barrel
  - Business and consumer confidence hit by energy shock
  - Political situation stabilises gradually. Oil prices return to baseline by 2015.

- **Eurozone exits in 2014 (15%)**
  - Fiscal austerity in peripheral countries becomes unbearable
  - No growth pushes unemployment yet higher. Pro-exit parties gain popularity.
  - No real progress on banking and fiscal union,
  - 6 countries exit Eurozone in 2014 Q1.

- **Oxford Forecast (60%)**
  - Steps to ensure Eurozone survival are taken, although they are not enough to kick start significant growth.
  - Risk premia fall, and consumer and business confidence gradually recover.
  - Recovery limited by public and private deleveraging and weak job growth
  - EMs robust as policy eases and growing middle class support consumer spending and trade

- **Faster upturns in US & EMs (15%)**
  - Resolution of outstanding fiscal issues encourages investment and hiring in the US.
  - Momentum in EMs builds as trade picks up and accommodating policy feeds through
  - Business and consumer confidence rise as conditions improve.
Oxford Economics baseline forecast

<table>
<thead>
<tr>
<th>World GDP Growth</th>
<th>% Change on Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>US</td>
<td>2.4</td>
</tr>
<tr>
<td>Japan</td>
<td>4.7</td>
</tr>
<tr>
<td>Eurozone</td>
<td>2.0</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>4.0</td>
</tr>
<tr>
<td>France</td>
<td>1.6</td>
</tr>
<tr>
<td>Italy</td>
<td>1.8</td>
</tr>
<tr>
<td>UK</td>
<td>1.8</td>
</tr>
<tr>
<td>China</td>
<td>10.4</td>
</tr>
<tr>
<td>India</td>
<td>9.7</td>
</tr>
<tr>
<td>Other Asia</td>
<td>7.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>5.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>7.5</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>1.9</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>3.6</td>
</tr>
<tr>
<td>MENA</td>
<td>5.8</td>
</tr>
<tr>
<td>World</td>
<td>3.6</td>
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<tr>
<td>World (PPP)</td>
<td>4.6</td>
</tr>
</tbody>
</table>
Policy tightening is excessive…

Discretionary fiscal tightening, 2010-13
% of GDP, total 2010-2013

- Germany
- Neth
- France
- Eurozone
- Italy
- Ireland
- Spain
- Portugal
- Greece

Source: Oxford Economics/Haver Analytics
...and even Germany is now suffering

Europe: Industrial production

% year

3 month moving average

Source: Haver Analytics
Adjustment is being made by periphery…

Unit labour costs

Source: Oxford Economics
…but will it come soon enough?

Eurozone: Unemployment Rate

Source: Oxford Economics/Haver Analytics
And danger Europe shoots itself in the foot

Retail deposits at Eurozone banks*

% annual growth

2005 2006 2007 2008 2009 2010 2011 2012 2013

Spain Greece Ireland Cyprus Portugal

* Non-MFIs excluding central government
Source: Oxford Economics/ECB
Eurozone break-up still the biggest global risk…

Eurozone*: GDP

% year

Baseline

Forecast

Eurozone Multiple exits

* Remaining countries

Source: Oxford Economics/Haver Analytics
...and enough to put US in recession...

**US: GDP**

% year

Baseline

Forecast

Eurozone
Multiple exits

Source: Oxford Economics/Haver Analytics
...and oil prices hit hard

Source: Oxford Economics/Haver Analytics
US showing more momentum…

**US: Employment and unemployment**

- **Employment (RHS)**
- **Unemployment rate (LHS)**

Source: BLS/Haver Analytics
...although fiscal tightening will hold back 2013
But deleveraging close to an end…

**US: Sectoral indebtedness**

- Domestic financial
- Consumer
- Non-financial business

% of GDP

Source: Oxford Economics/Haver Analytics
...and banking sector improving

US & Eurozone: Corporate loan growth

% year

-25 -20 -15 -10 -5 0 5 10 15 20 25


US commercial & industrial loans

Eurozone loans to PNFCs

US loans inc. commercial real estate

Source: Haver Analytics

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Household debt service close to record low...

US : Household debt measures

% of disposable income

Household financial obligations

Household debt service ratio

Source: FRB
...with house prices back at fair value...

US: House prices in real terms

1980=100

FHFA (1968-1974); BIS (1975-1986); Case-Shiller (1987-2011)

1968-2000 trend line

Source: Oxford Economics/Haver Analytics
...so activity starting to strengthen

US: Single-family home sales

Source: Census Bureau, NAR/Haver Analytics
US manufacturing now very competitive...

Unit labour costs in manufacturing in US$

Source: Oxford Economics/Haver Analytics
…at its best for over 30 years…

US: Relative unit labour costs

Source: Oxford Economics
...boosting trade and investment

Relative trade performance

Export growth minus growth in demand, %pt

US | Japan | Germany | France | Italy | UK

-5% | -4%  | -3%    | -2%   | -1%  | 0%  

Source: Oxford Economics
And energy sector booming

OECD Europe

Net imports as % of consumption (rhs):
- Oil
- Gas

US

Oil & gas consumption

Oil & gas production

China

Oil & gas consumption

Oil & gas production

Source: BP

And energy sector booming
Corporate cash piles still growing

Cash holdings of non-financial corporations

% of GDP

Source: Oxford Economics/Haver Analytics
Corporate reawakening – Key results

US: GDP
% year

Source: Oxford Economics/Haver Analytics
Corporate reawakening – Key results

World: GDP
% year

Source: Oxford Economics/Haver Analytics
Corporate reawakening – Key results

World oil price

$/barrel


Baseline

US and EM faster upturn

Forecast

Source: Oxford Economics/Haver Analytics
Emerging markets rebounding after soft patch

G7 & Emerging Markets: GDP growth

Emerging Markets
G7
F'cast

Source: Oxford Economics
Chinese real estate stabilising

China: Real estate

% year, 3mma

Real estate investment by SOEs

Real estate investment

Source: CEIC
Asian trade cycle is turning

"Rest of East Asia": Goods' Exports (US$)

Source: Haver Analytics
Japan taking steps to boost its economy

Japan: Bank of Japan balance sheet and yen

Index

% of GDP

2008 2009 2010 2011 2012 2013

Source: Bank of Japan, JP Morgan
Outlook is also improving in Latin America…

**Latin America: Monthly GDP**

% year

3 month moving average

Source: Haver Analytics

*Oxford Economics*
…although Brazil still struggling with competitiveness
...as cost pressures mount
But investment rates are rising…

National investment

% of GDP

East Asia

Middle East & North Africa

Latin America

Sub-Saharan Africa

Source: Oxford Economics
…underpinned by higher savings rates…

National savings

% of GDP


Middle East & North Africa

East Asia

Latin America

Sub-Saharan Africa

Source: Oxford Economics
…and strong foreign direct investment

Inward FDI

<table>
<thead>
<tr>
<th>Billion $</th>
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<tbody>
<tr>
<td>250</td>
</tr>
<tr>
<td>200</td>
</tr>
<tr>
<td>150</td>
</tr>
<tr>
<td>100</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
And middle class still growing

Households with an income greater than US$30,000

Number of households, millions

- China
- Brazil
- Russia
- Turkey
- India
- Indonesia

2010
2020
Who will be the fastest-growing emergers?

The fastest-growing emerging market economies will typically have one or more of the following characteristics:

- **Have big domestic populations that are getting richer**
  - eg China, India, Indonesia

- **Resource-rich**
  - eg Angola, Kazakhstan, Nigeria, Qatar

- **Benefiting from improved macro/policy/legal/political stability**
  - eg Vietnam, Thailand, Kenya

- **Not overly-dependent on the Eurozone**
  - eg Not Poland, Hungary, Czech Republic
Plenty of growth still to be found over next decade

Economic growth prospects: 2011 - 2021
Annual growth, US$ basis

- Emerging Asia
- Middle East & North Africa
- Sub Saharan Africa
- Latin America
- US
- Eurozone

Source: Oxford Economics