

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

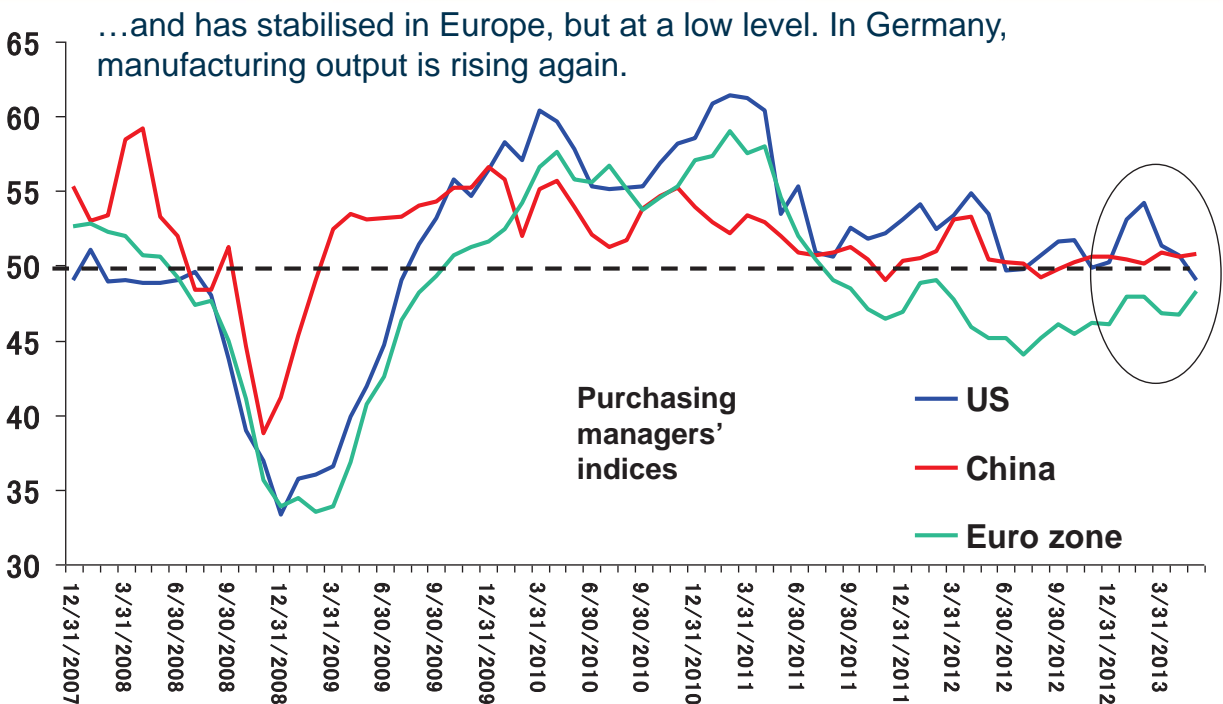


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Growth and the funds to fuel it

Manufacturing is edging higher in US and China...



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.



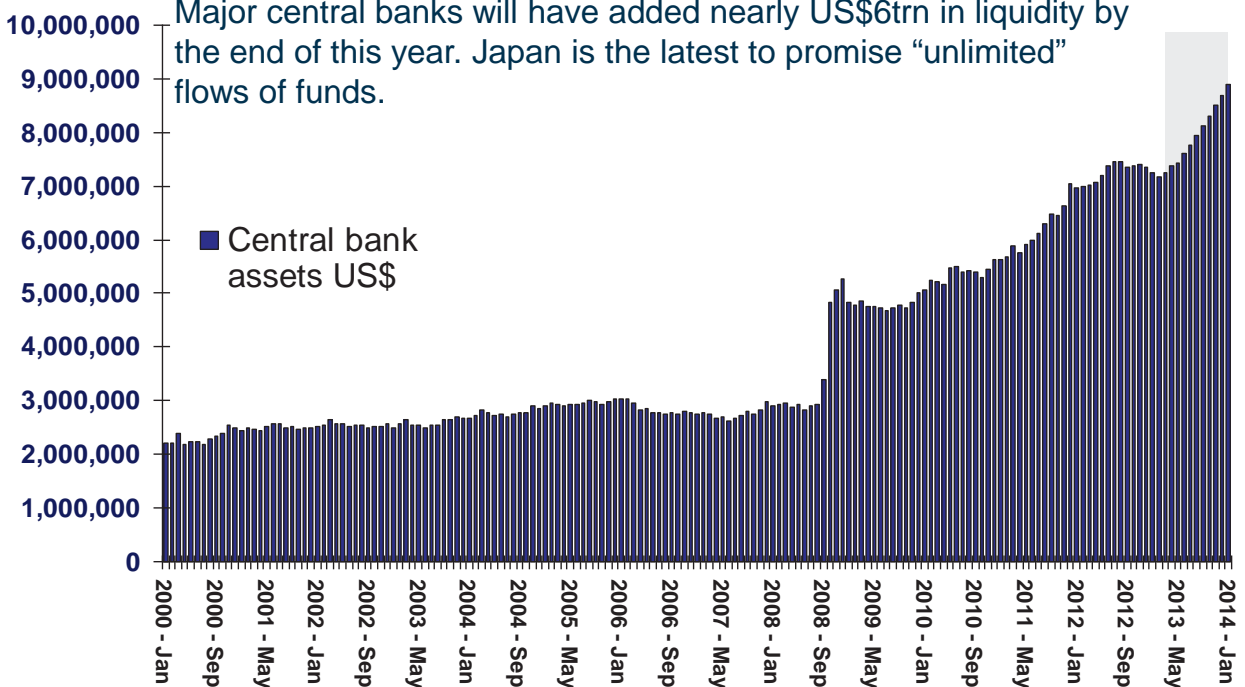
US stockmarket capitalisation; US\$m. Source: Bloomberg

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Central banks: When in doubt, print more money

Major central banks will have added nearly US\$6trn in liquidity by the end of this year. Japan is the latest to promise “unlimited” flows of funds.



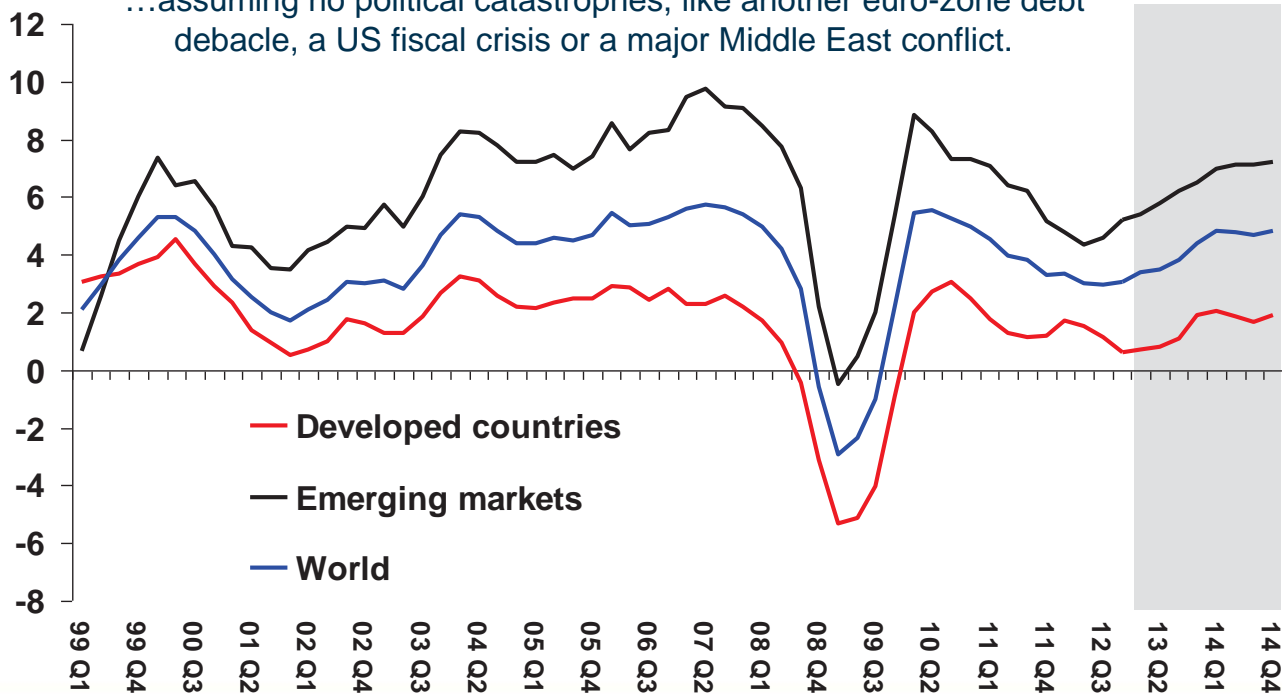
Total central bank assets, US\$m: US Fed, ECB, BOE, BOJ. Source: National central banks, Haver Analytics

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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.



GDP growth, % change, YoY. Source: Economist Intelligence Unit

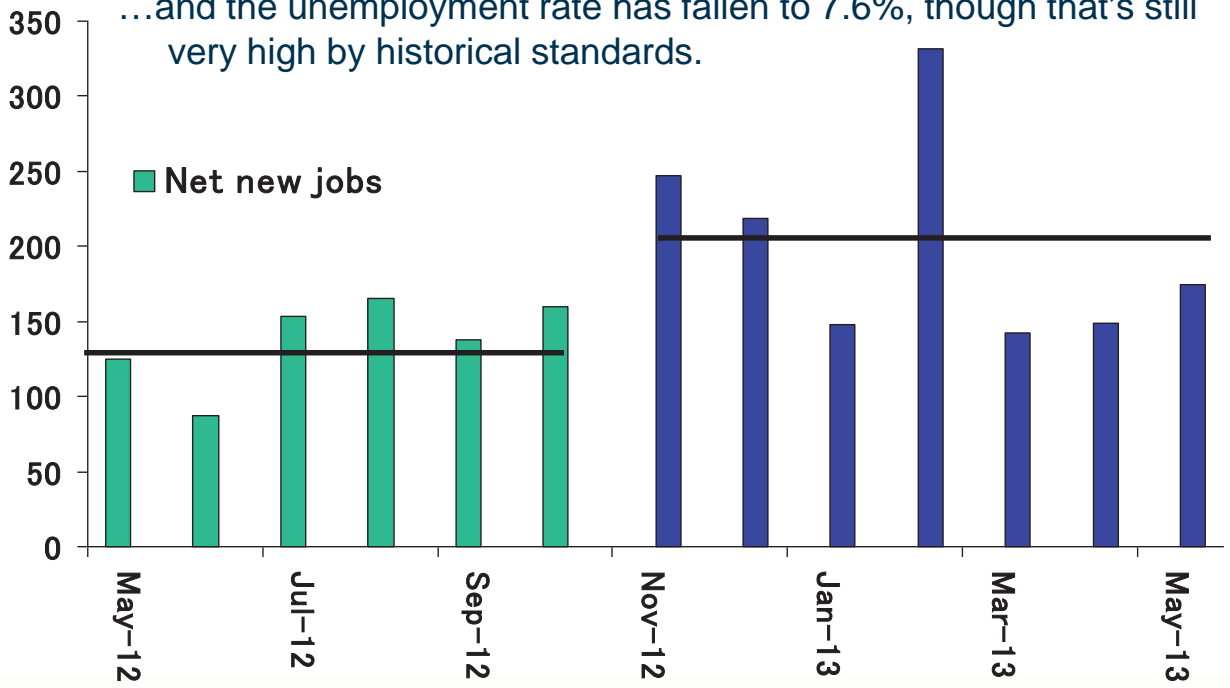
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US and developed economies

US: Job growth is steadily improving...

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

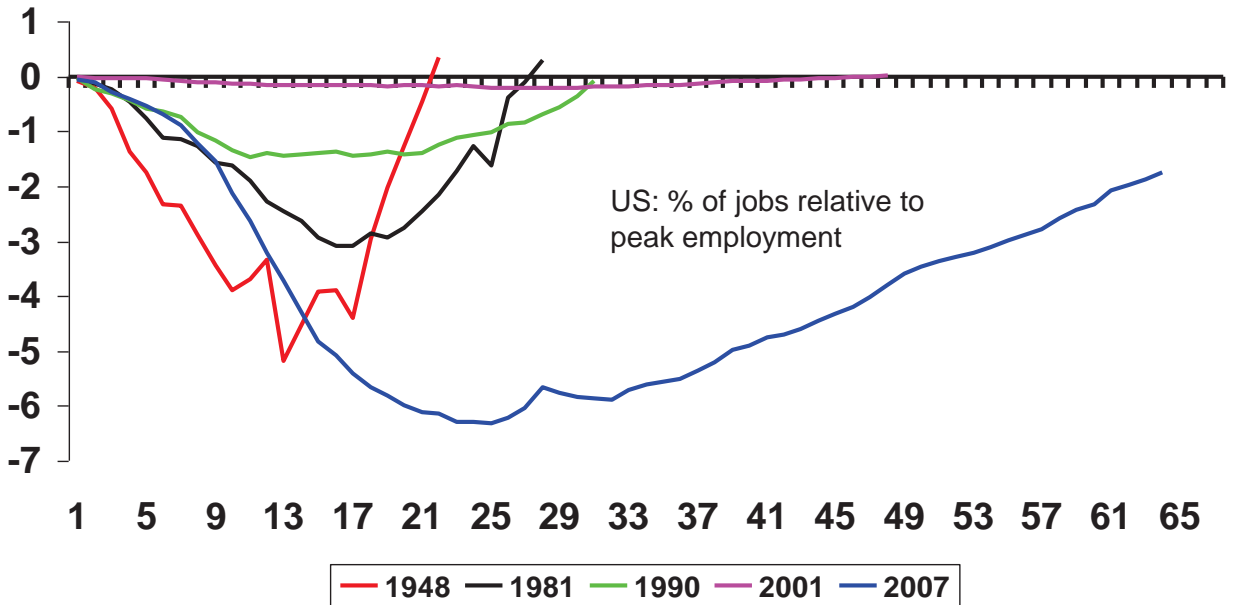


Non-farm payrolls, monthly net job change. Source: Bureau of Labour Statistics

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Post-recession US jobs? Very long journey

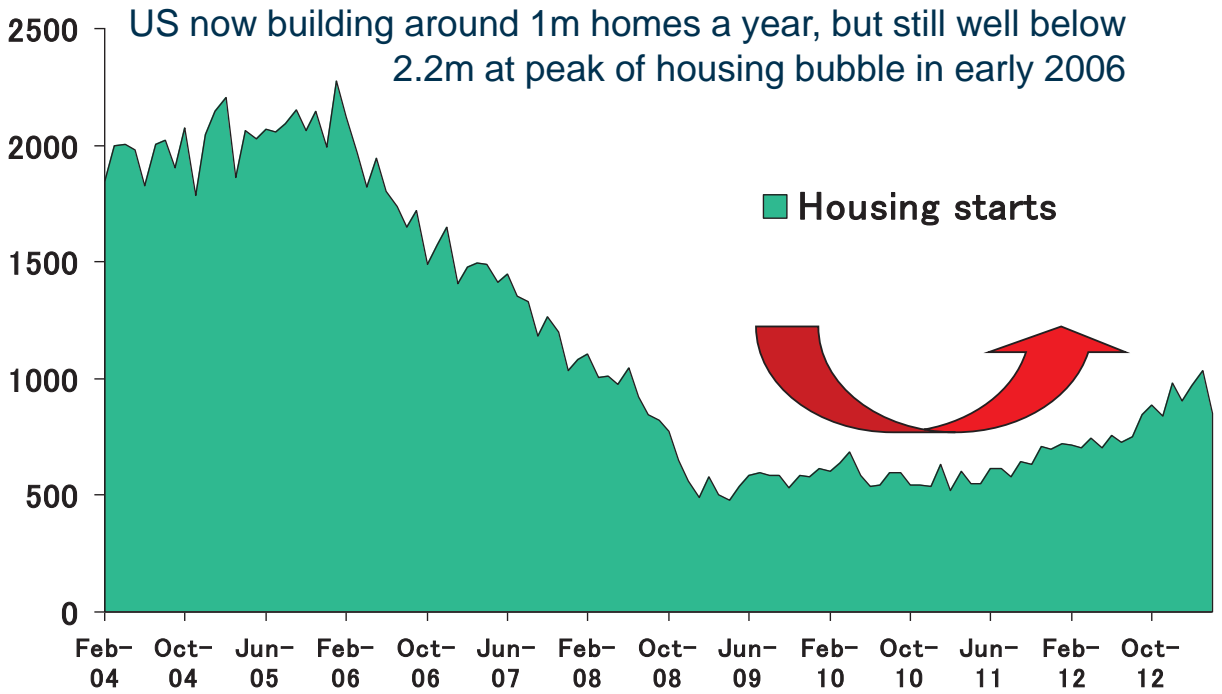


Months from peak employment. Sources: Bureau of Labour Statistics; EIU.

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A stronger housing market is boosting sentiment

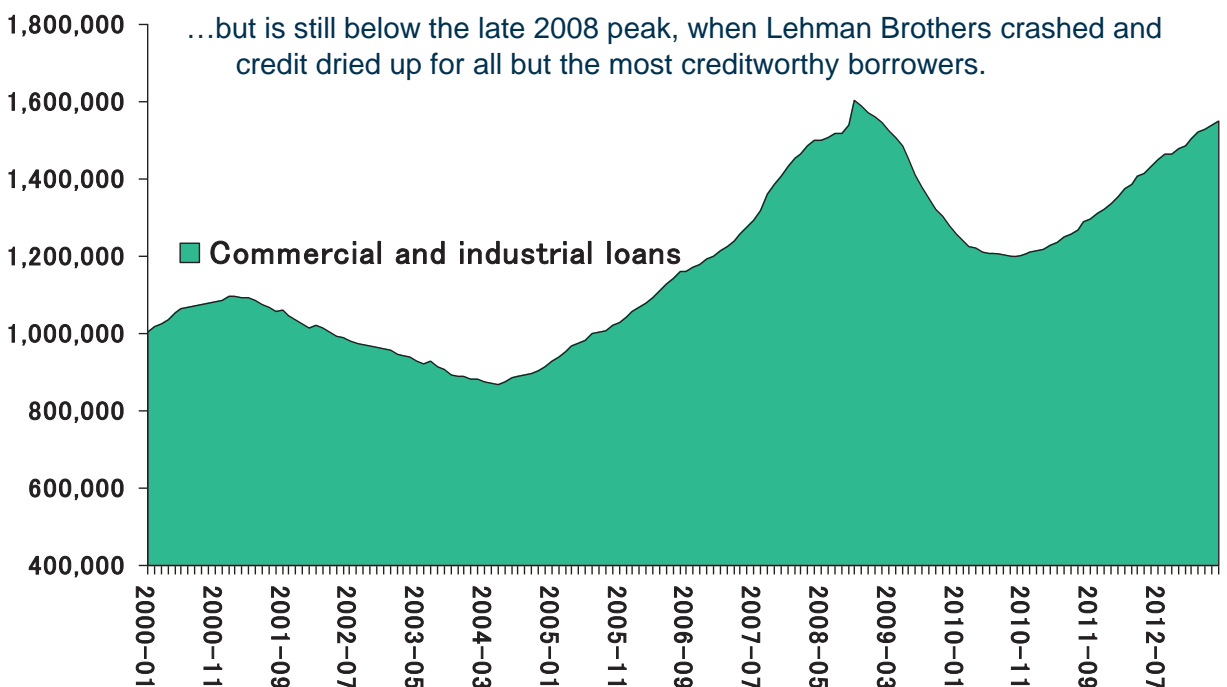


New home construction, units, monthly at annual rate.
Source: US Census Bureau.

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



Outstanding levels of loans, millions of US\$. Source: Federal Reserve

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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.



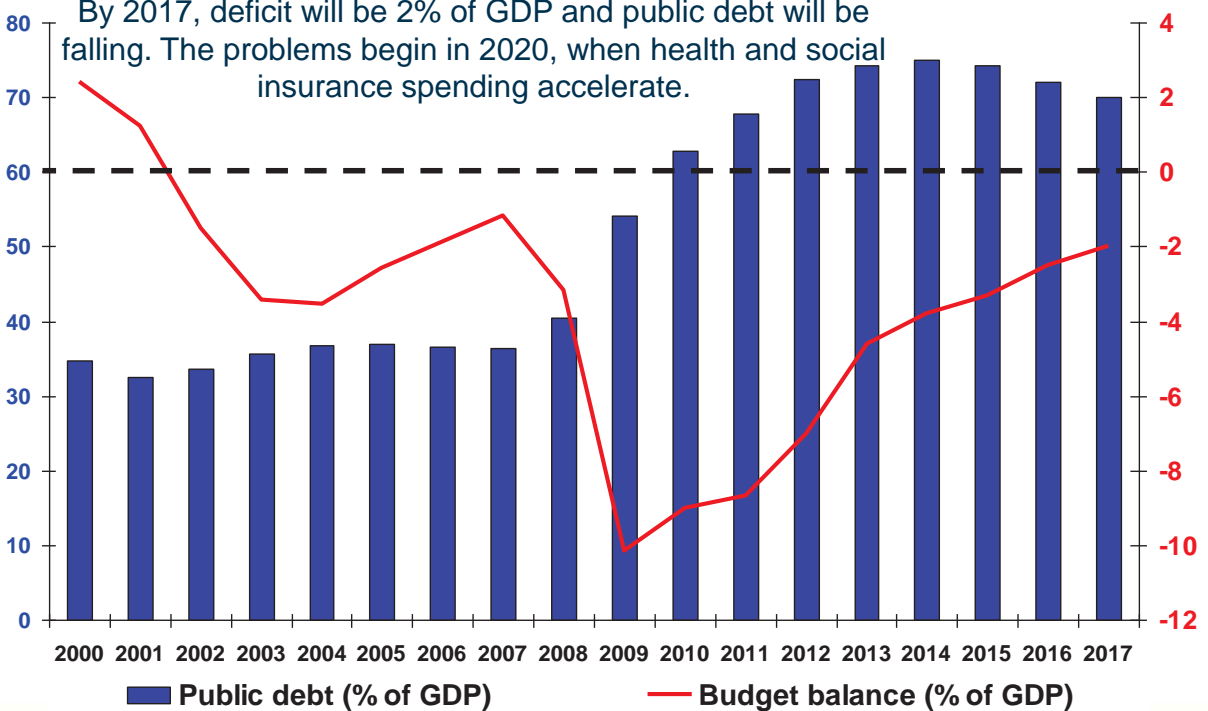
% of GDP. Source: Bureau of Economic Analysis

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

By 2017, deficit will be 2% of GDP and public debt will be falling. The problems begin in 2020, when health and social insurance spending accelerate.

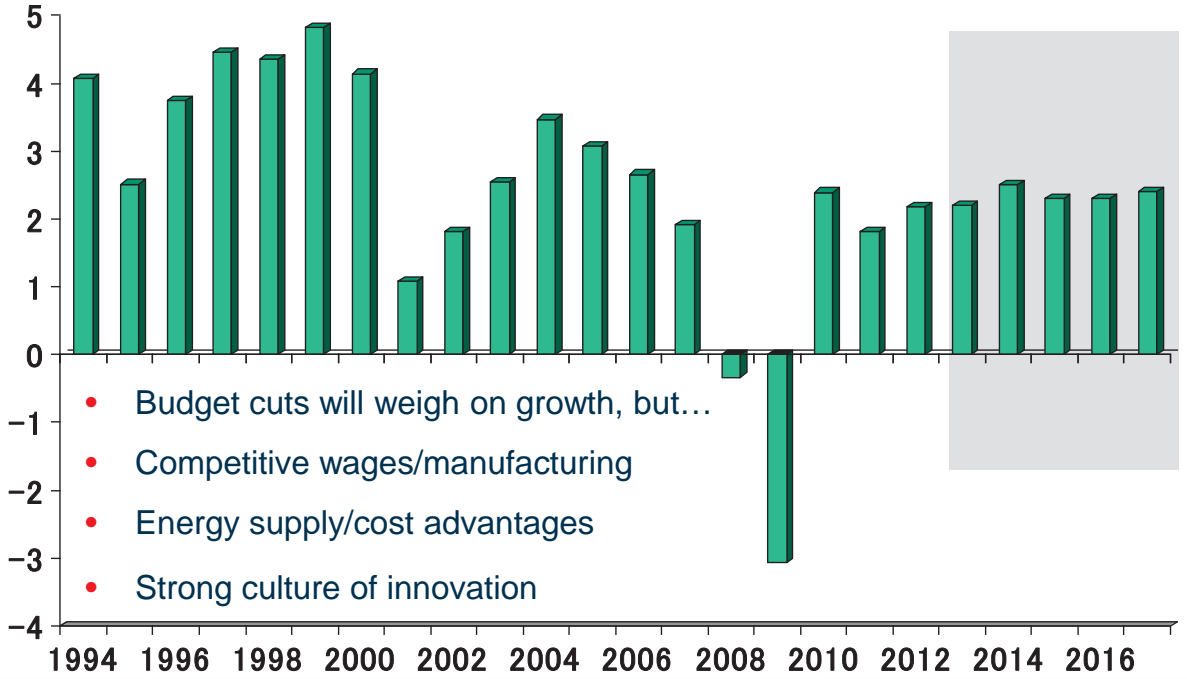


Source: US Department of the Treasury

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

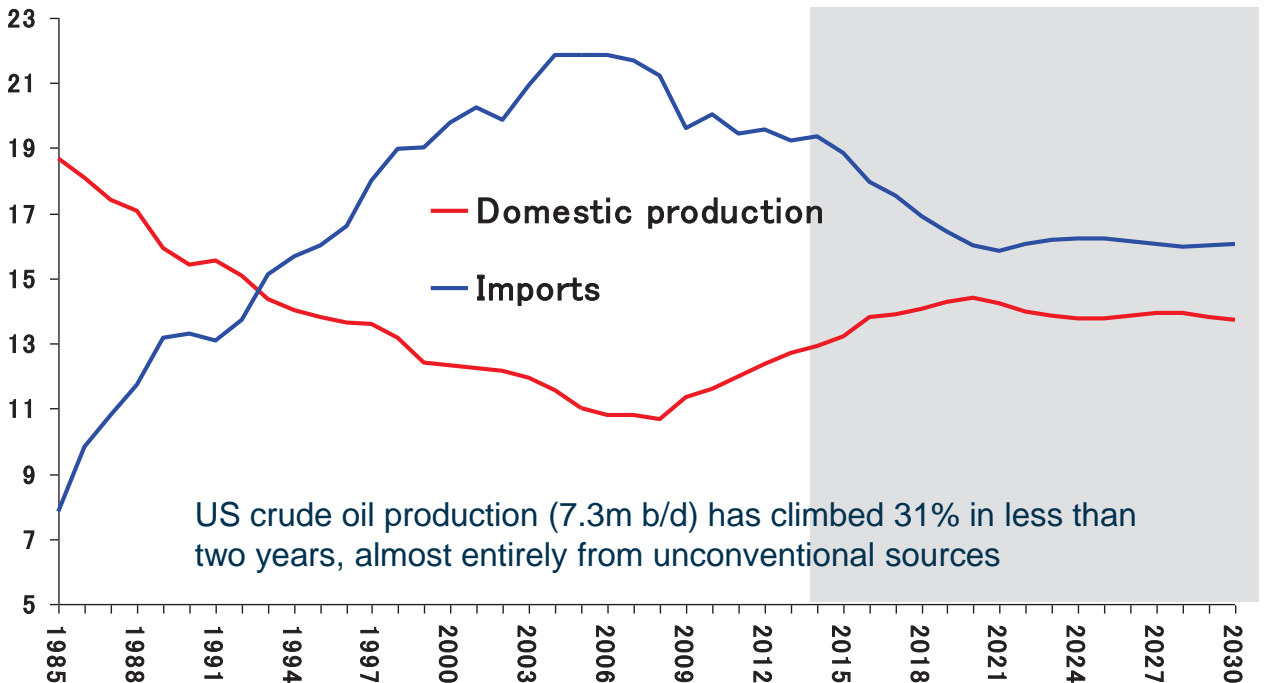


GDP, % change, real terms. Source: Economist Intelligence Unit

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US: Less imported oil, more domestic production

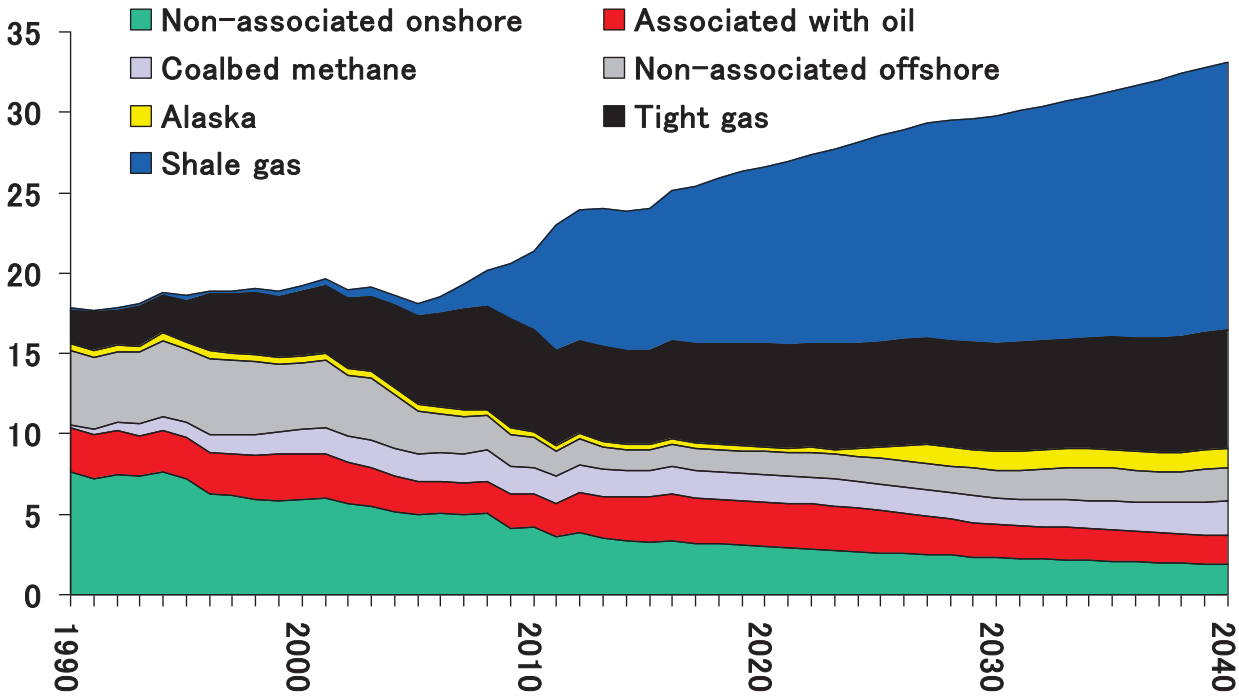


Crude oil, quadrillion BTUs. Source: US Department of Energy

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US is also enjoying a boom in shale gas production



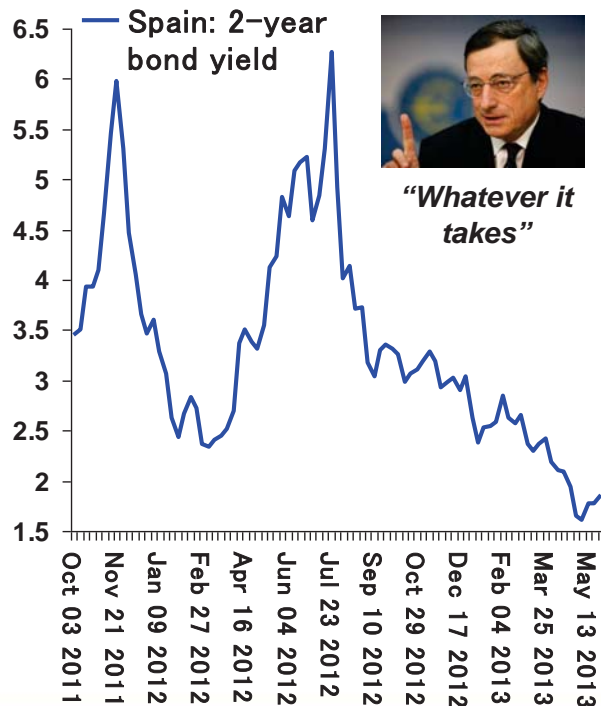
Source: US Energy Information Administration, June 2012

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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



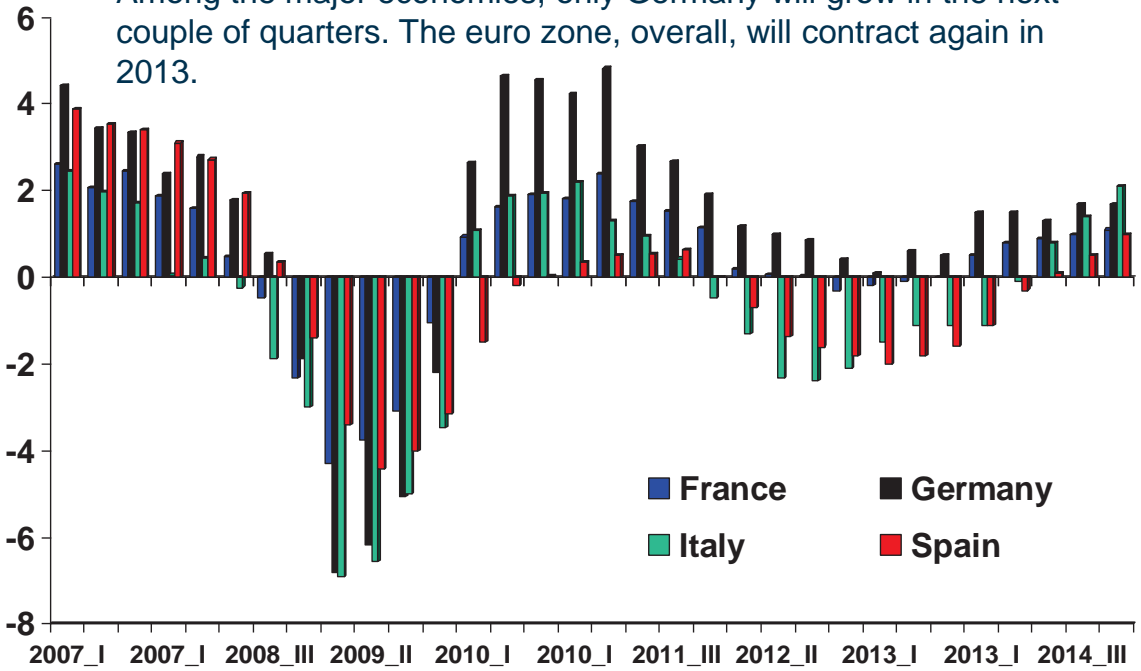
2-year government bond yield, %. Source: Haver

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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.



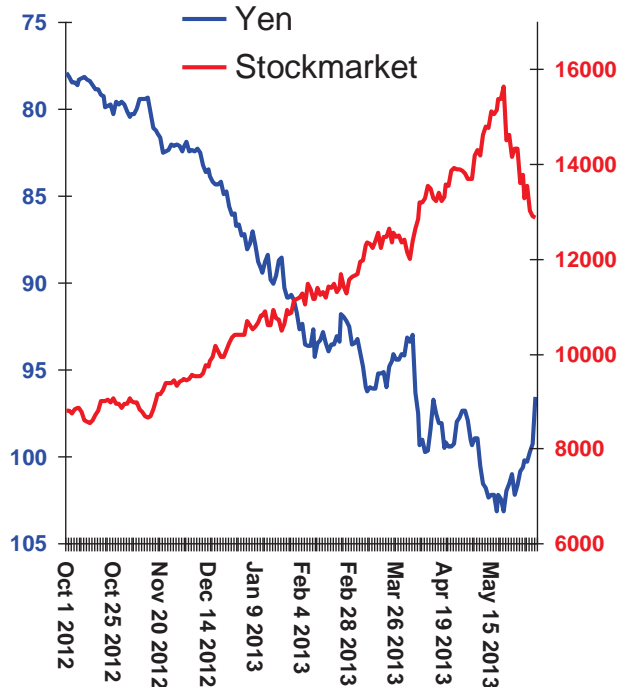
Real GDP, % change YoY. Source: EIU Country Data

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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



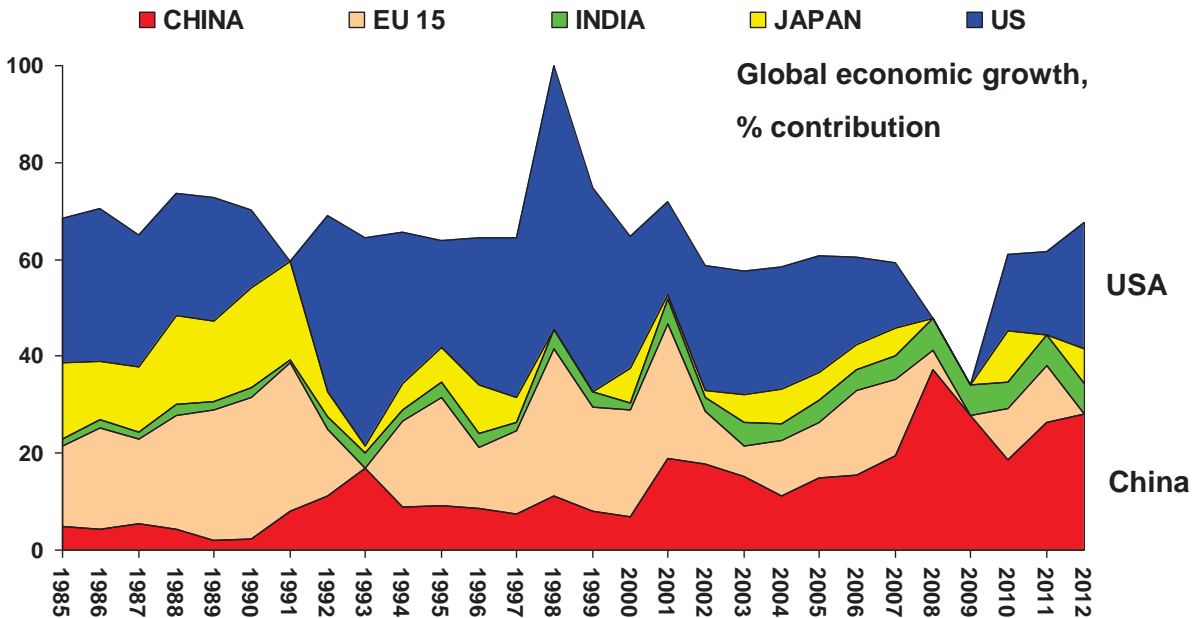
Yen:US\$1, lh scale; Nikkei 225 stockmarket, rh scale. Source: Haver Analytics

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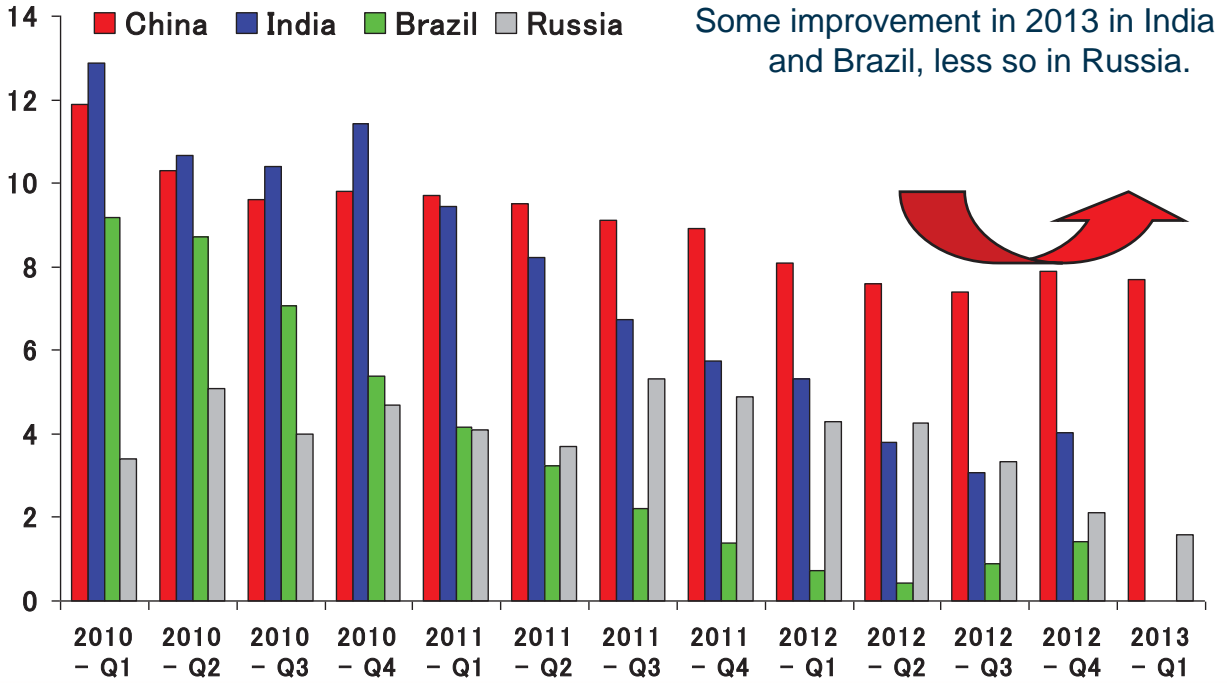
Emerging markets

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



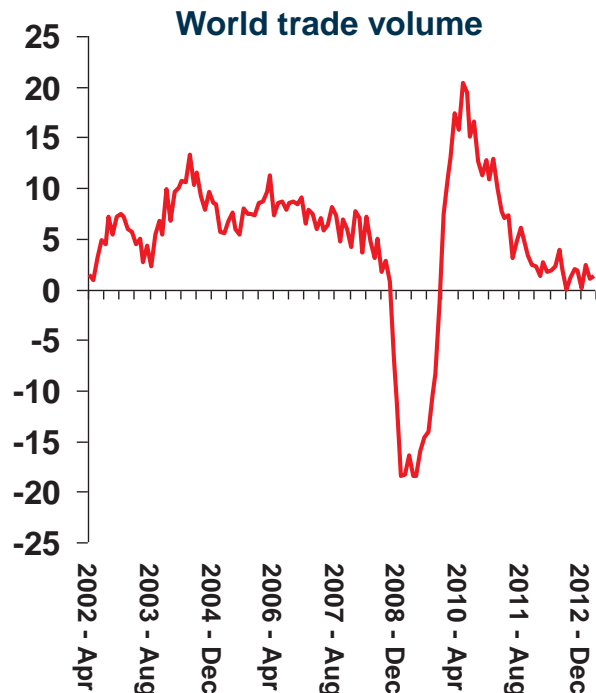
Quarterly real GDP growth % change year on year.
Source: Haver Analytics.

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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

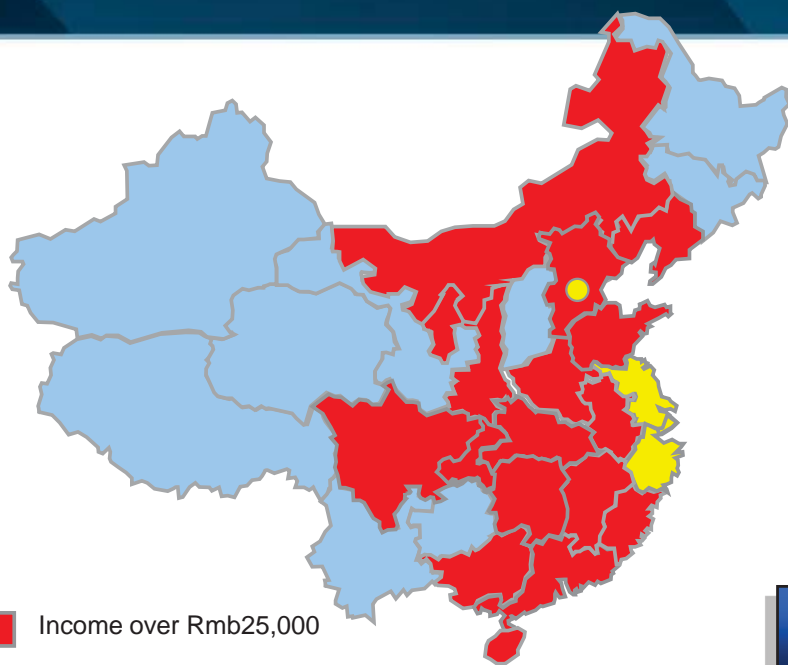


World trade volume, % change year on year. Source: CPB World Trade Monitor, Netherlands Bureau for Economic Analysis

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China: Forecast for 2013



- 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

National Bureau of Statistics historic data, EIU forecasts

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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?

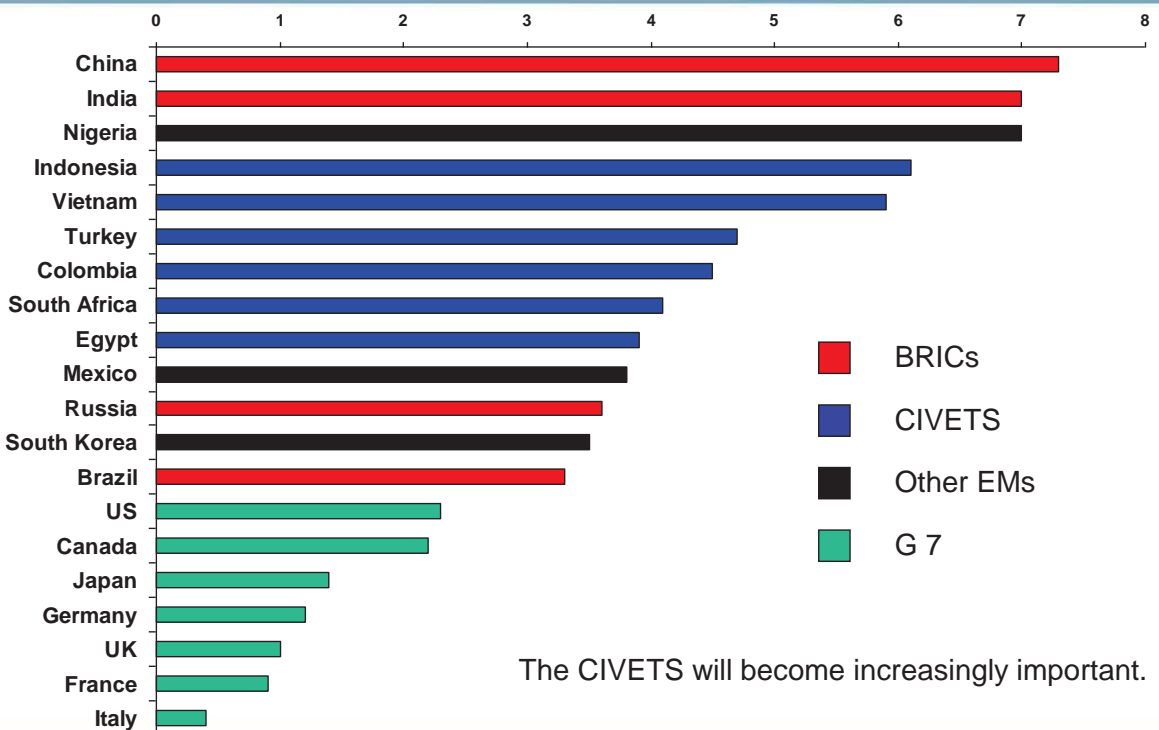


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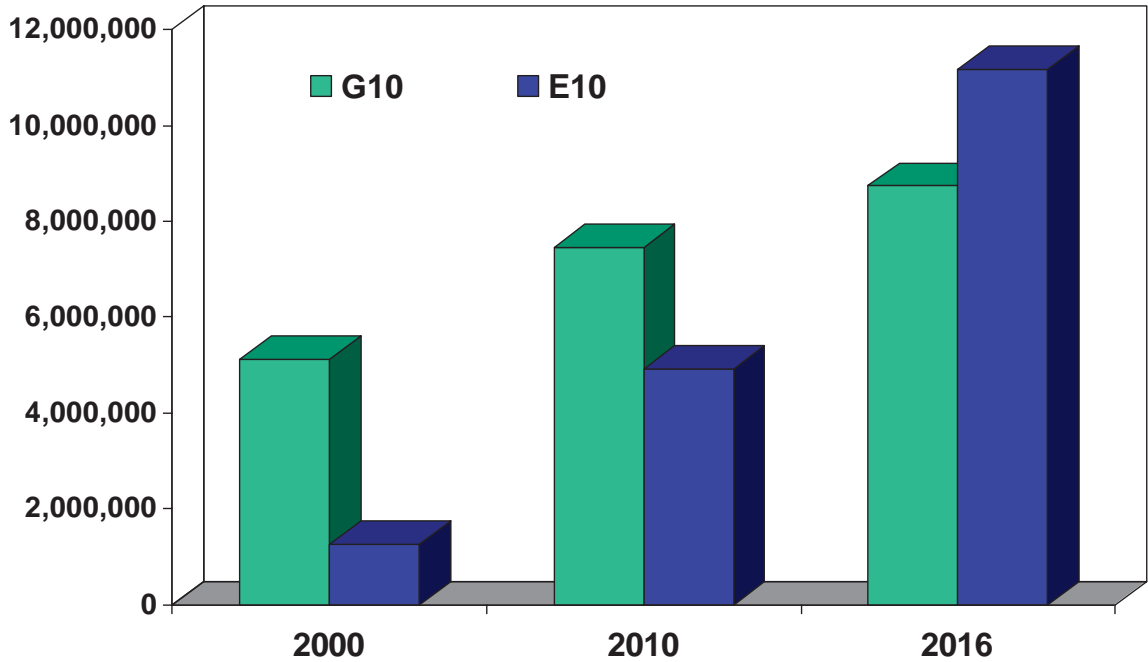
Shifting marketplace

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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