

Never mind the politics, feel the growth!

Riding the global rollercoaster, 2018-19

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Britain and Brexit

What to expect

We don't leave the EU	5%
We leave the EU but broadly keep the same EU relationship	0%
We get a deal on trade in goods (tariffs) but not in services or in regulations, 2yr transition	65%
We fall out of the EU with no deal	30%

What to expect

The shape of a deal

- Two year transition
- Low or no tariff trade in goods, but hampered by regulatory barriers.
- No special deal for key sectors (cars etc)
- No special deal for financial services

Result is hampering of UK growth over medium term

Universities

- 6% of students from EU, 14% from rest of world
 - Current EU access to courses at UK rates will end (2021?)
 - More importantly, access to student loans will end (2021?)
 - Reversion to higher fees, weaker pound will not offset drop in student numbers
 - Also have to contend with “you’re not welcome” narrative
 - Immigration restrictions already unhelpful

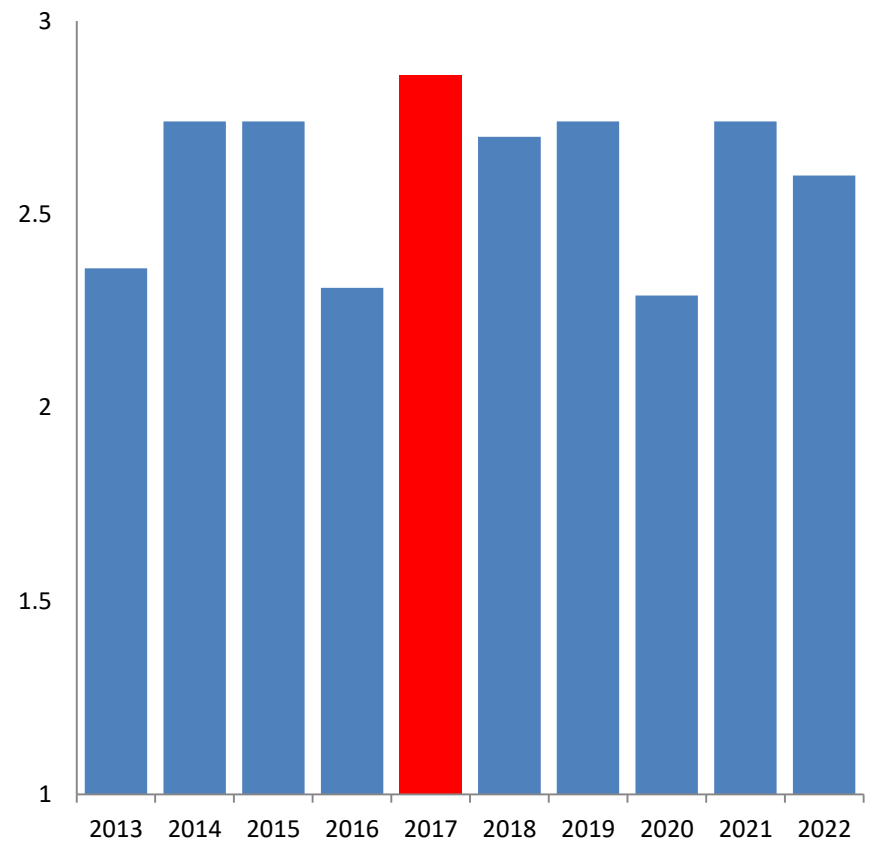
Global summary

2017: as good as it gets?

Global growth has picked up, but clouds are on the horizon

- Less monetary and fiscal stimulus, yet best performance since prior to financial crisis
- Simultaneous growth in US, EZ, Japan
 - China also bucked trend for slowing growth – temporarily
- China step-down and end of US biz cycle will cool growth in 2018-20
 - Tightening monetary policy will also cool consumer spending
- Upside risk to 2021, depending on level of monetary and fiscal stimulus

Global GDP growth (%)



Global: The new world order

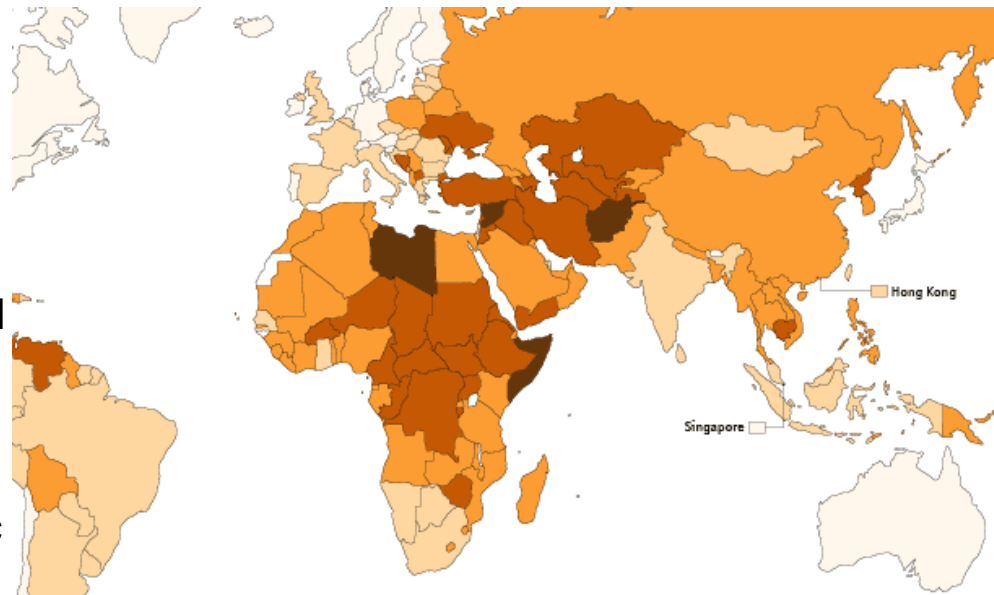
US dominance recedes, repressed tensions rise

Lack of a single powerful global actor will be a permanent feature in the long term

- US foreign dominance recedes
 - US military overstretch
 - Domestic opposition
- New world order emerges
 - Russia: re-emerges as a geopolitical force: cross-border wars in Ukraine, troops in Syria
 - China: defending claims in South China Sea, launches new diplomatic initiatives, such as One Belt, One Road, NDB, AIIB
 - Saudi-Iran tensions

Asia the US-China battleground
AIIB, SCS, TPP = proxies

New fronts of political instability



Source: The Economist Intelligence Unit, Risk Briefing.

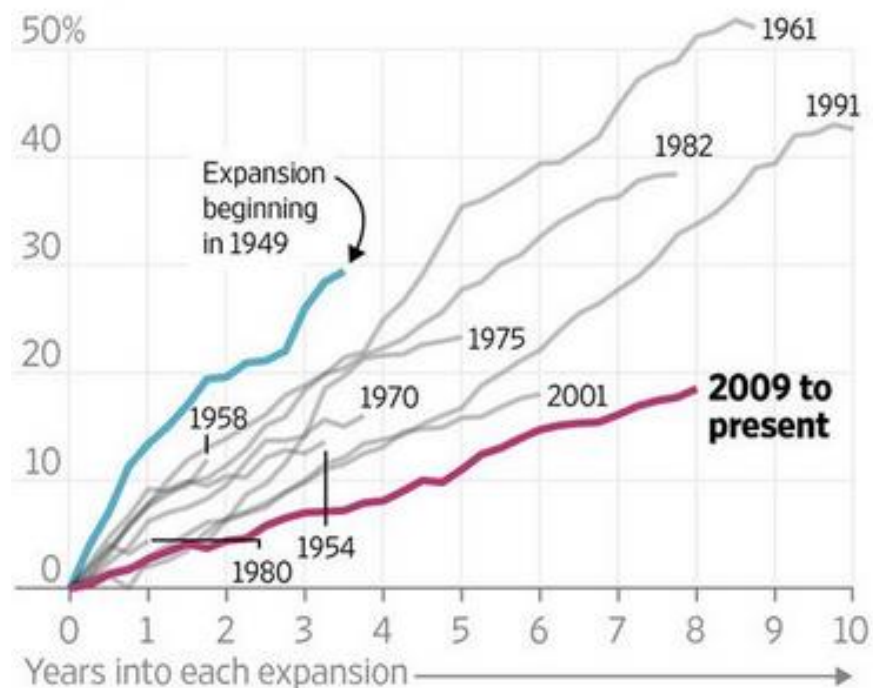
- How do Japan and India react in Asia as the US retreats and China rises?
- Will faltering economic growth put an end to China's rise?

US Outlook

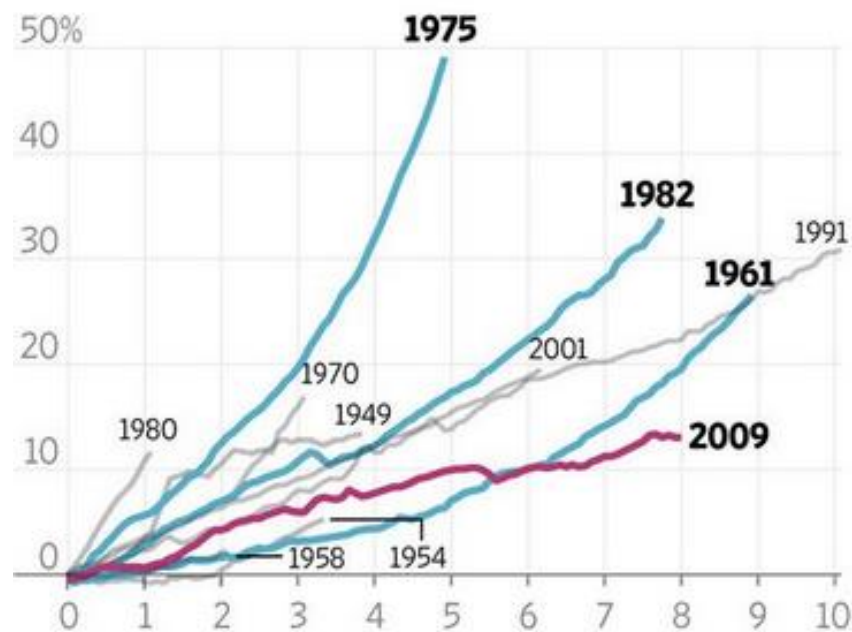
US: 10 years since the financial crisis

Where is the economy at?

Change in inflation-adjusted GDP



Change in the consumer-price index

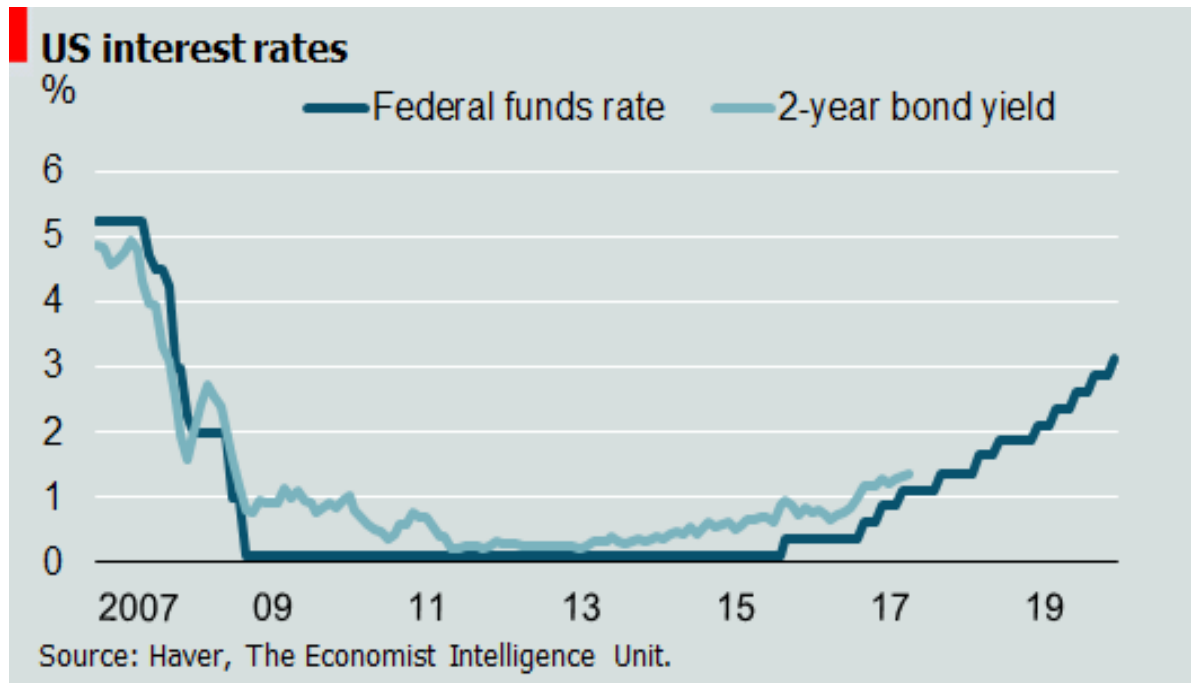


US: But recovery finally allowing Fed normalisation



Fed Funds rate will top 3% in 2020 for first time since early 2008

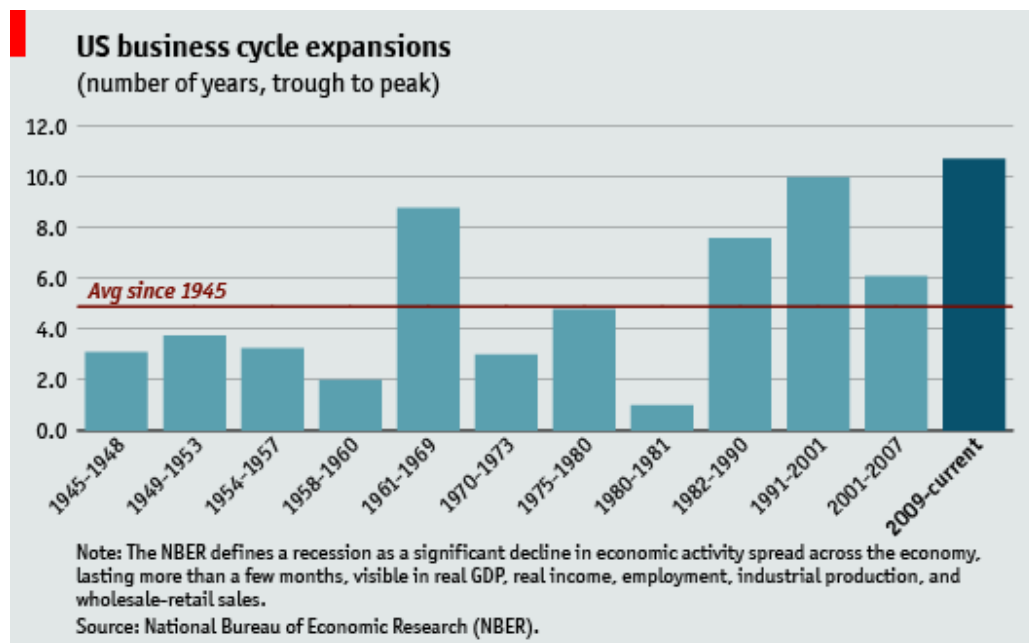
- Economy will grow steadily in 2018-19, by around 2% a year
 - Falling unemployment → More consumer spending → more business investment = a virtuous circle
 - Business investment recovering from poor 2015-16



- Fed will raise interest rates three times each in 2018-19
 - Central bank will ignore volatile short-term data
 - Markets not expecting this level of tightening, so some financial volatility is possible
 - Yellen to go

US: Business cycle will end in 2020

Political consequences depend on precise timing



- Fed will signal faster rate of interest rate increases in early 2020...
- ...causing private consumption and business investment to shrink...
- ...resulting in first recession since 2008.
- Growth for the year at **1%**
- Will Trump administration have time to respond?

Risks to this forecast:

- Biz loses confidence in Trump or debt crisis in China = recession sooner
- Or households cope with higher interest costs for longer = recession later

US: Priorities for Congress



Republicans are in a terrible mess

- Failure to repeal Obamacare as a result of lack of GOP unity
 - Fiasco has hurt popularity of McConnell and Ryan with base – but not Trump
 - Govt will end up ensuring Obamacare's survival, with help from Dems
- Party has moved onto tax cuts
 - Fewer and lower income tax bands – seven to 35%, 25%, 12%
 - Corporate tax rate down from 35% to 20%
 - End to alternative minimum tax and estate tax
 - Going to cost US\$1.7trn over ten years and push up debt:GDP ratio
- Immigration reform also pursued
 - Rate of deportations up, firms engaged to research the wall
 - Trump paved the way for Dreamers to be protected
- Deregulation, by contrast, going smoothly
 - Headline-grabbers, such as Paris, TPP, Financial CHOICE Act
 - But lots behind the scenes, in privacy, housing, education, agriculture

US: Will Trump survive?



Impeachment risk is moderate; 2018 mid-terms the key

- Mueller investigation extremely serious
 - Trump shown interest in impeding investigation
 - Investigation unlikely to exonerate Trump
 - Congressional Republicans will have to review support for Trump either when he interferes in investigation or when its results are published

Four possible outcomes

Mueller sacked but GOP supports Trump

- GOP prioritises policy agenda
- Drift between GOP and WH
- Little policy success

GOP keeps Mueller in job; legal stalemate

- Mueller blocked by Trump
- Trump's ratings drop further
- Little policy success

GOP keeps Mueller in job; Trump resigns

- Trump walks rather than risk legal battle
- Pence finishes the term
- Little policy success

GOP keeps Mueller in job; Trump ousted

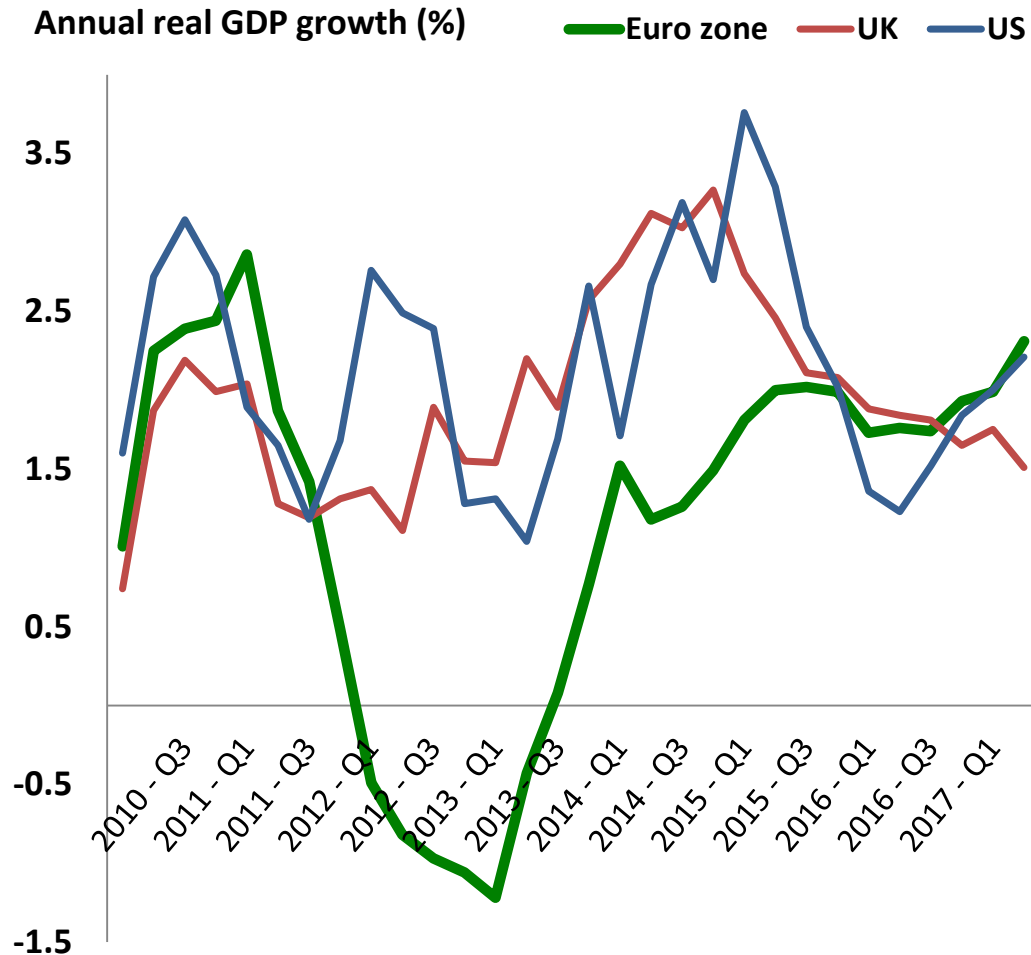
- Evidence against Trump clear
- Pence finishes the term
- Little policy success

decreasing likelihood

Europe Outlook

Euro zone: Recovery taking hold

...And has further to run

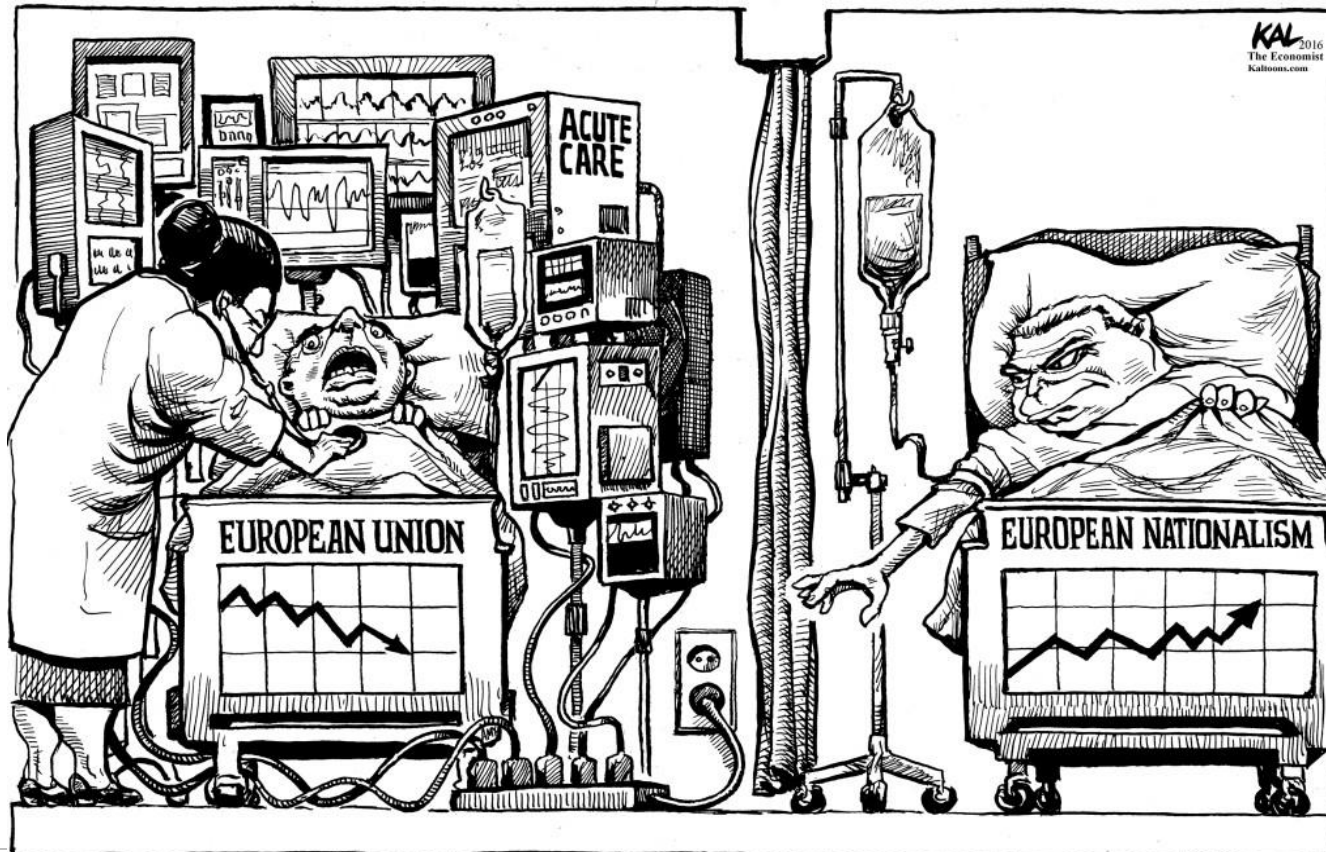


- Recovery underway for some time, but now stronger & broader
- Still lots of slack so should be sustained
- ECB tapering to begin in 2018, but no rate hikes until 2022
- Growth constrained by impaired credit channels, demographics, weak wage growth

Source: The Economist Intelligence Unit.

Populism is alive and well in Europe

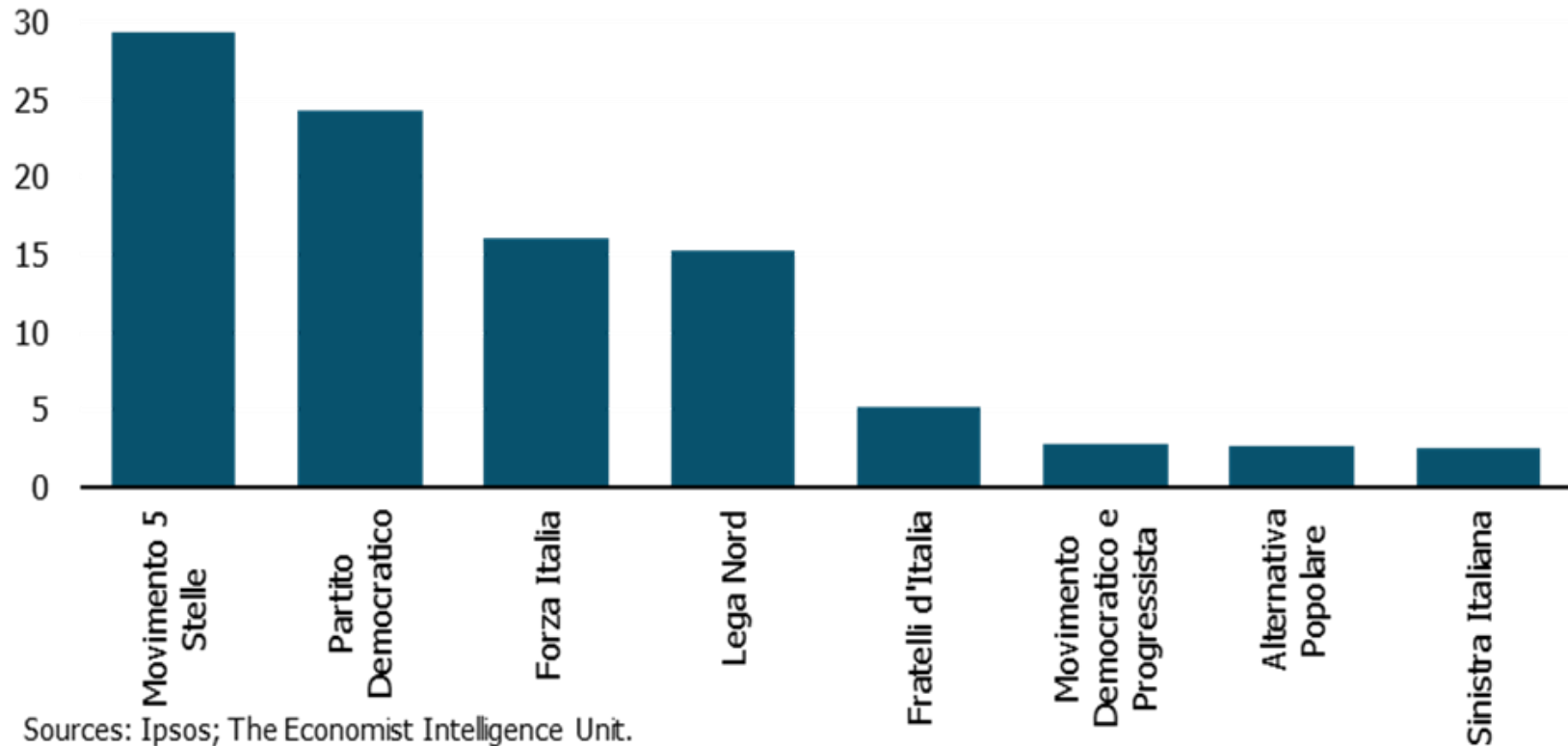
- Political risk is still a source of vulnerability, but contagion threat limited
- Only modest EU reform progress likely, Germany reluctant to increase risk-sharing
- Domestic policies are more important. Stronger growth should reduce political pressure to some extent



Italy: the next potential flashpoint

Voting intentions for the 2018 Italian general election

(% of respondents; poll conducted November 8th-9th)

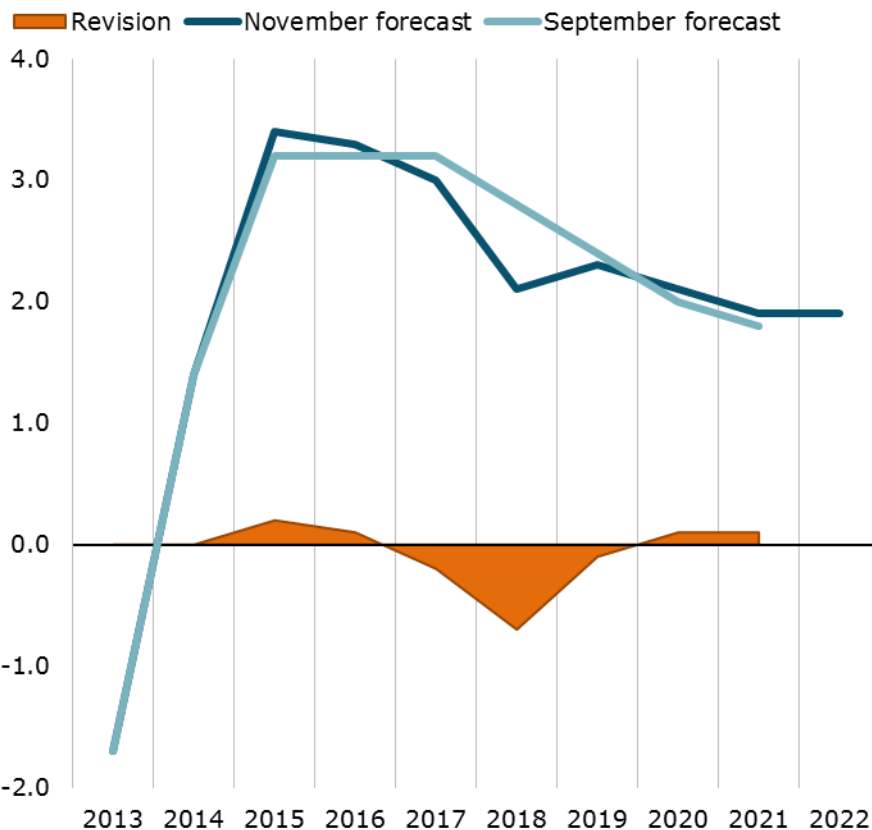


Sources: Ipsos; The Economist Intelligence Unit.

Spain: Political tensions will constrain growth in 2018

Real GDP growth

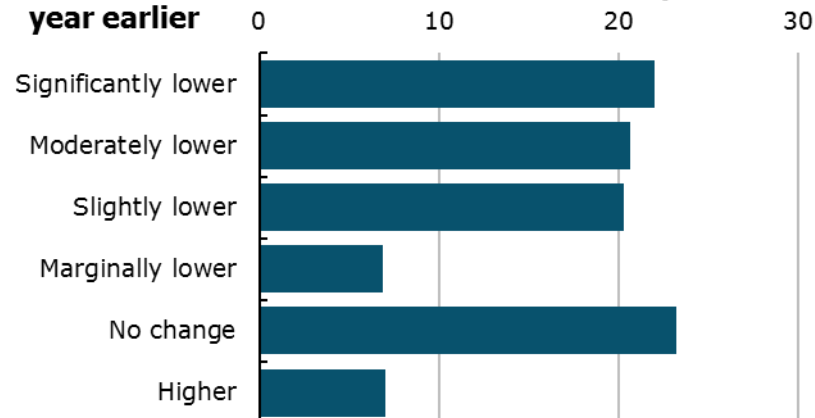
(% change)



Source: The Economist Intelligence Unit.

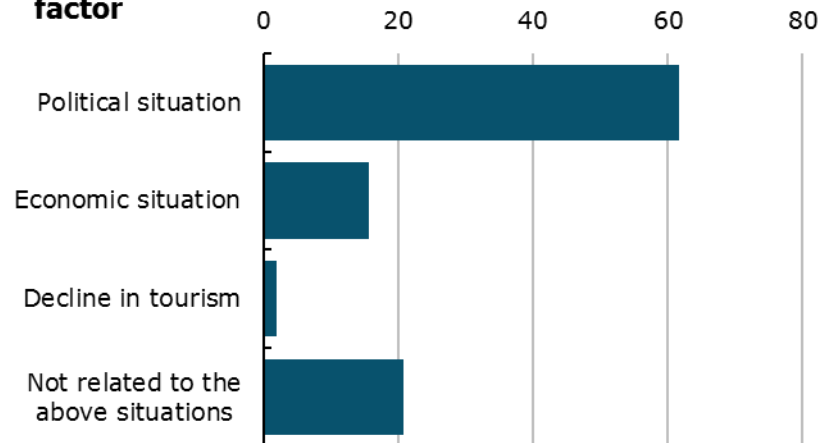
Notes: The closing dates of the November and September forecasts were November 1st and September 1st respectively

Share of SMEs in Catalonia experiencing declines in sales in October 2017 relative to the same period a year earlier



Source: Pimec Comerc.

Share of SMEs attributing declines in sales to each factor



Source: Pimec Comerc.

Brexit: Ever present risk of breakdown

Conciliatory gestures made on both sides but positions unchanged

First phase of talks in deadlock

- Agreement on citizens' rights, NI border within reach
- UK seems to have satisfied EU on the financial settlement, but Northern Ireland will be tricky; May has very limited political room. Nothing is agreed until everything is agreed



Where do we go from here?

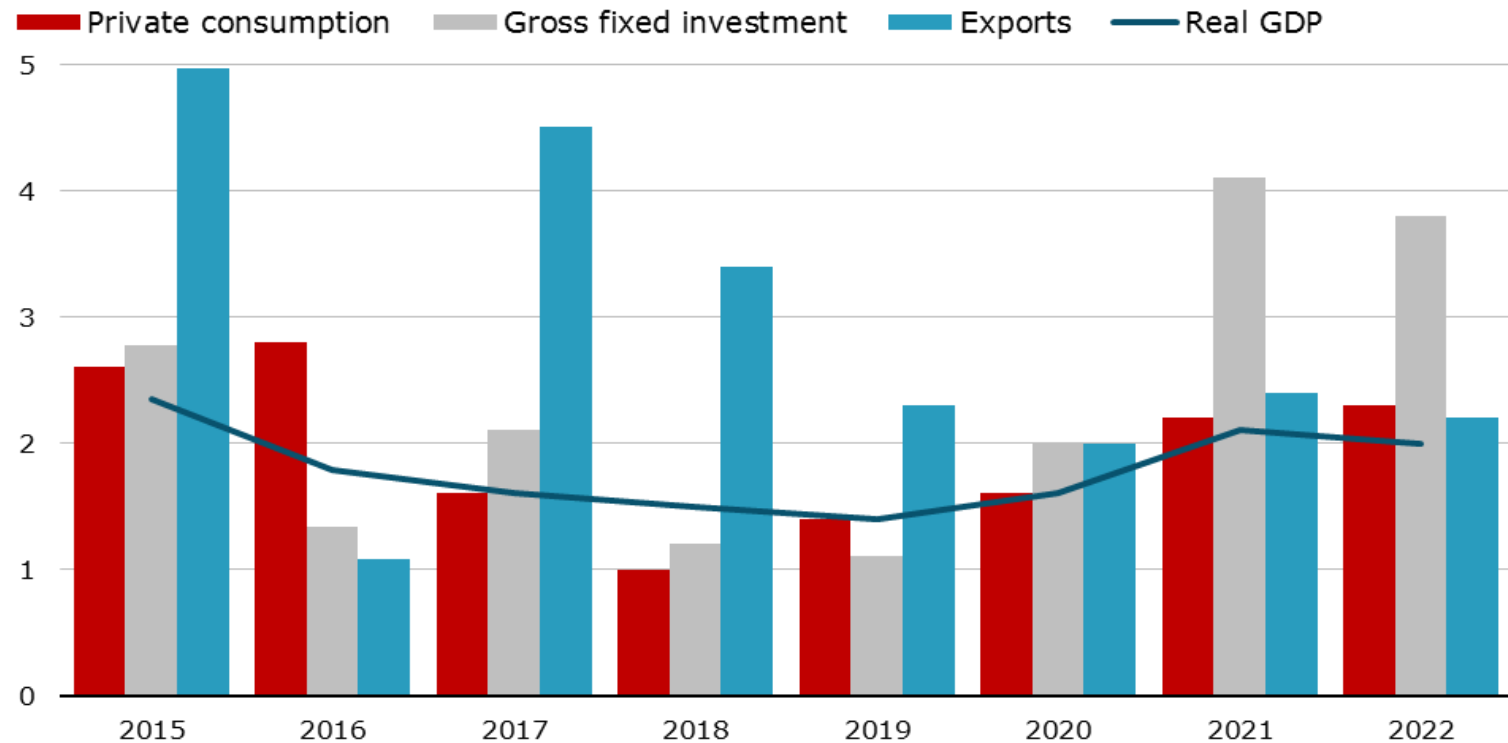
- No deal threat is empty; UK has made no serious preparations
- Could happen anyway if relations sour and talks break down
- Avoiding this should make compromise possible by year-end
- Second phase of talks on future relationship will present new challenges

The UK Brexit fallout

We expect real GDP growth to slow in 2018-19

UK real GDP growth

(% change, year on year)



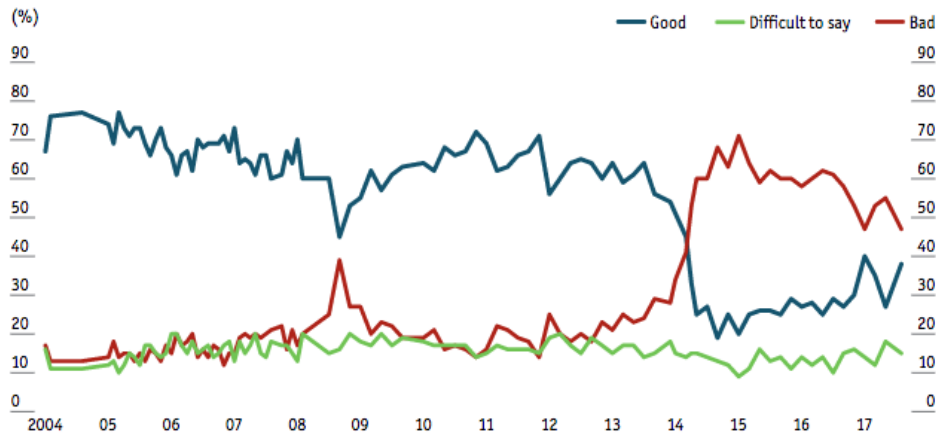
Sources: The Economist Intelligence Unit; Office for National Statistics.

Note: EIU estimate in 2017; EIU forecast in 2018-22.

Russia: A divisive issue for the EU

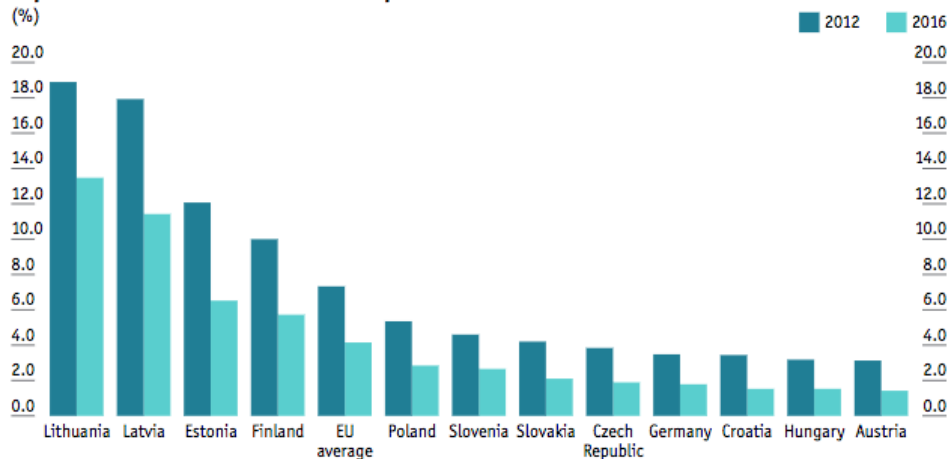
Relationship will remain difficult but both sides have an interest in co-operation

Russians' attitude to the EU



Source: Levada centre (<http://www.levada.ru/en/ratings/>).

Exports to Russia as a share of total exports



Source: The Economist Intelligence Unit.

- Situation in Ukraine frozen, Putin to be re-elected in 2018
- Russia's relationship with the EU will remain competitive and conflict-prone
- We don't rule out a reset; shared security, economic and energy interests
- Russia has more to lose than the EU if the stand-off persists or if relations worsen
- GDP growth below 2% in 2017-21

Asia & Emerging Markets

China: Xi in almost total control

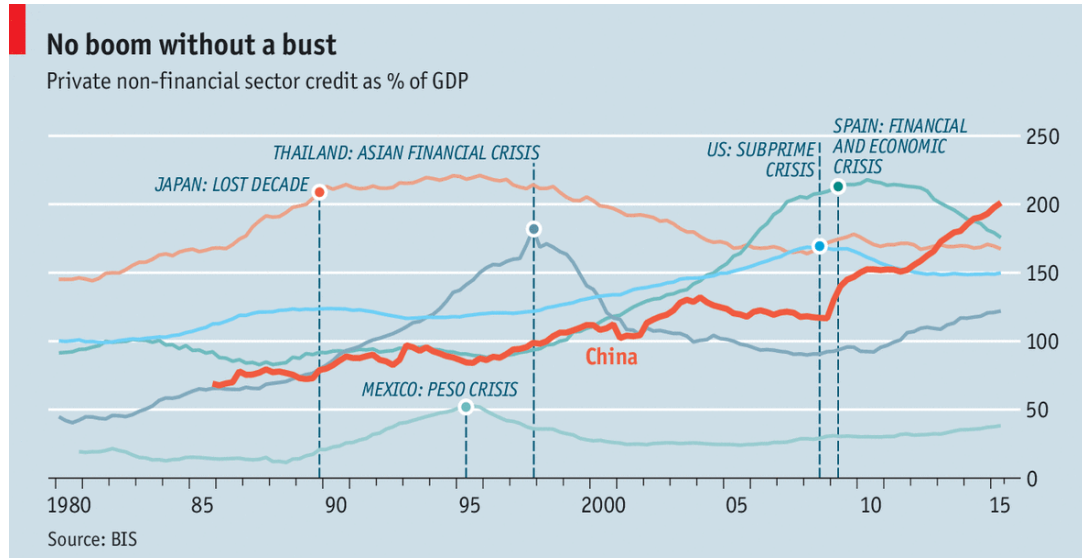
President packed politburo with allies at party congress



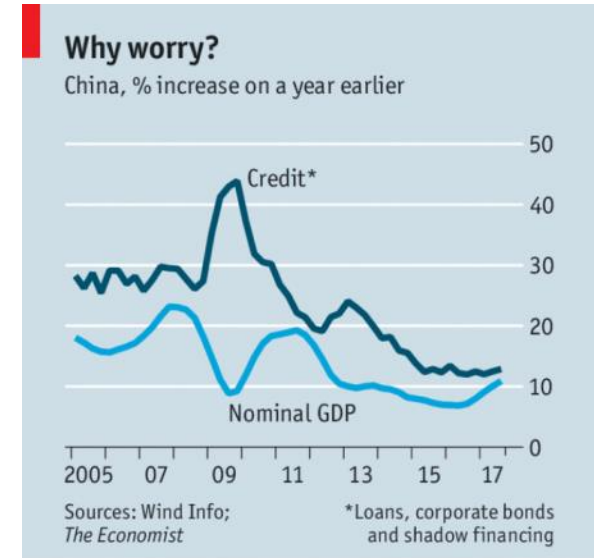
- 19th Party Congress confirmed Xi Jinping as China's most powerful leader since Mao Zedong
 - **Has** centralised power, ousted rivals, tightened control over civil society
 - **Has not** identified an heir apparent
 - **Likely** to try to extend his stay beyond 2022, or appoint a loyalist as president
- CCP's position to remain secure in 2018-22
 - Slower growth and deindustrialisation will lead to protests, but localised
 - Support among urban middle class threatened by air pollution, food safety and quality of public services, but economic self-interest will prevent mass protests
 - Powers of the state will remain: tight security, fragmented opposition

China: calm before the storm

The country's debt dynamics are unsustainable



Economist.com



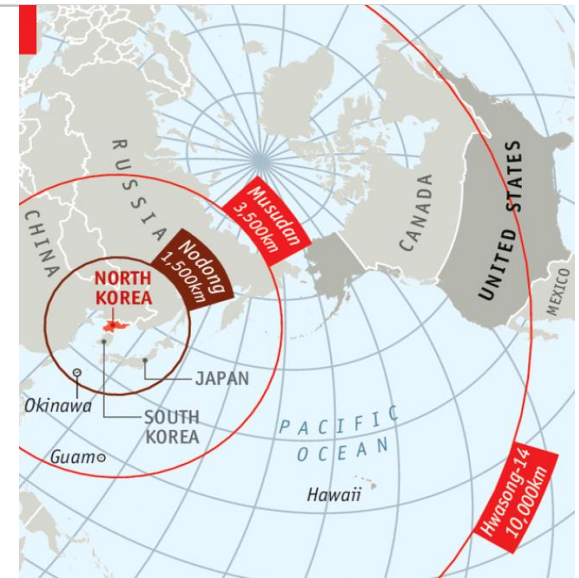
Economist.com

- Some credit tightening has happened, but more is to come
 - PBoC has pushed up a variety of money market rates in 2017
 - Deposit and lending rates will rise in 2018, liquidity will be drained
 - Low and mid-tier banks will be recapitalised
 - But debt will continue to rise – over 250% of GDP by 2022

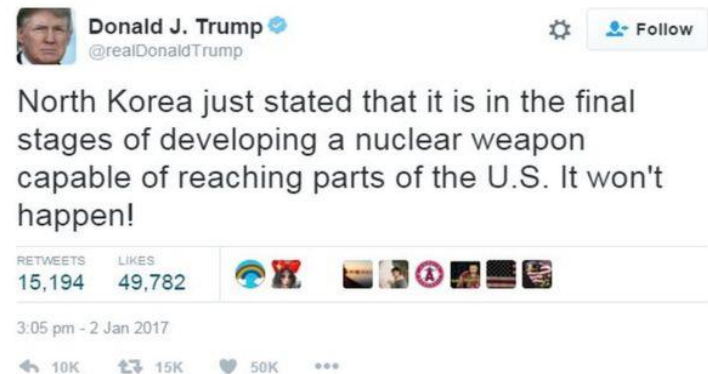
North Korea: nuclear ICBMs within 2 years

US policy will be forced to shift from aggression to containment

- No diplomatic or economic pressure will deter the North from nuclear programme
- Consider this: **regime tolerated sanctions-induced famine that killed up to 2.5m people to keep pursuit of nuclear weapons going**
- Once full nuclearisation is achieved, US will shift to longer-term policy of containment and deterrence
 - Increased military exercises and weaponry modernisation in the region
 - Development of anti-ballistic missile capabilities to protect the US homeland and allies
 - China will resent military build-up in its backyard



Economist.com

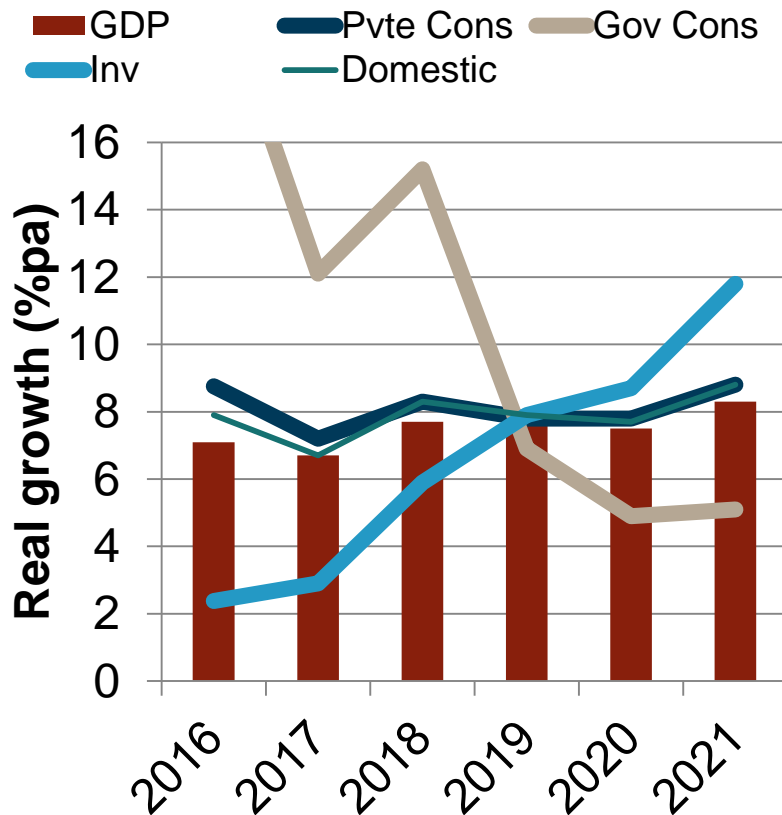


India: All systems go?

GDP growth will accelerate after the shock of demonetisation



Fundamental drivers of urbanisation and formalisation being unleashed by improvements in the business environment, infrastructure and inflation-targetting



Services sector already bigger and growing faster than industry; agriculture growth remains subject to monsoon rainfall

Differences to China's growth: services not manufacturing, domestic not trade, consumption more than investment

Limited progress on free trade agreements

Some populist policies, such as farm loan waivers, to persist

Skills, urbanisation and infrastructure key determinants of investment flows

Improvement in banks' and corporate balance sheets will drive years-long investment revival, opportunity of "golden decade"

ASEAN outlook

Still great opportunities

Thailand

- 69m people with GDP/capita >US\$6,000
- Strong growth in retail sector
- Urbanisation and ageing
- Growth trending lower and exposed to tourist sentiment
- Political risk weighing on private investment



Vietnam

- Population growth & rapidly rising incomes
- Continued market liberalisation from low base
- Geopolitical exposure
- Consumer expenditure expanding at 10% pa



Malaysia

- Strong growth outlook, rising disposable incomes
- Investment in connectivity
- High-income status on the horizon (81% of required level)
- Rising authoritarian tendencies, political risk and early election



Philippines

- Still growing strongly, despite Duterte
- Increased spending on infrastructure
- Living standards improving but also severe income inequality
- Private consumption growing at 5.7% pa

Indonesia

- One of the largest consumer markets in Asia
- Favourable demographic profile
- Urbanisation
- Reforms to continue to be slow and only in selected sectors



Japan: Shinzo the gambler

Snap election paid off, paving the way for constitutional change

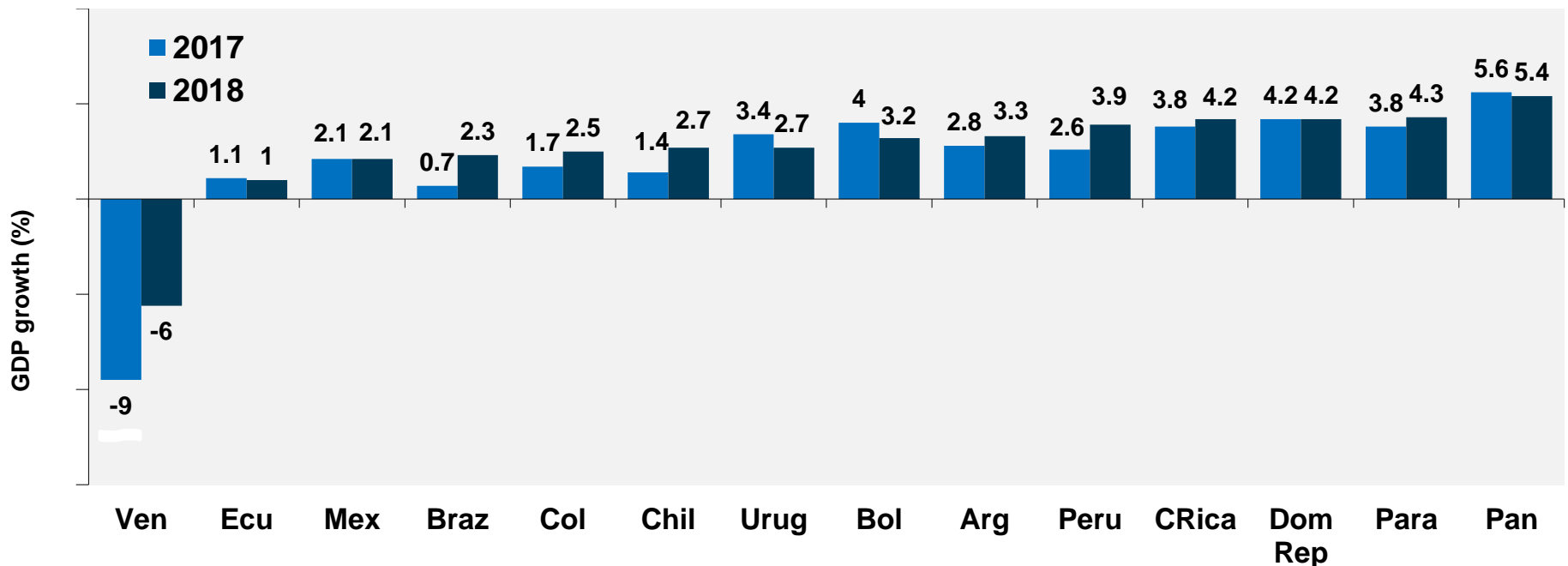
- LDP retained supermajority in October election; Abe will be kept on as LDP leader in September 2018
- Abe will now pursue constitutional change to legitimise the self-defence forces. Referendum in 2018?
- Public support generally wavers, but external events supportive of a 'more prepared' Japan – Abe will play up threat from NK
- Economy:
 - Continuation of Abenomics
 - Consumption tax to be raised to 10% in late 2019; private consumption to contract in 2020
 - Declining bond market liquidity will see QE tapered from 2019
 - Growth to average around 1% a year in 2018-22



Latin America: better performance

A mixed bag, but largest economies will be growing faster in 2018 than 2017

- A supportive external environment will boost growth in the short term
- Fiscal adjustments during 2015-16 recession have put improved fundamentals
- Latin America's busy election season in 2018 will be a risk to performance in some countries

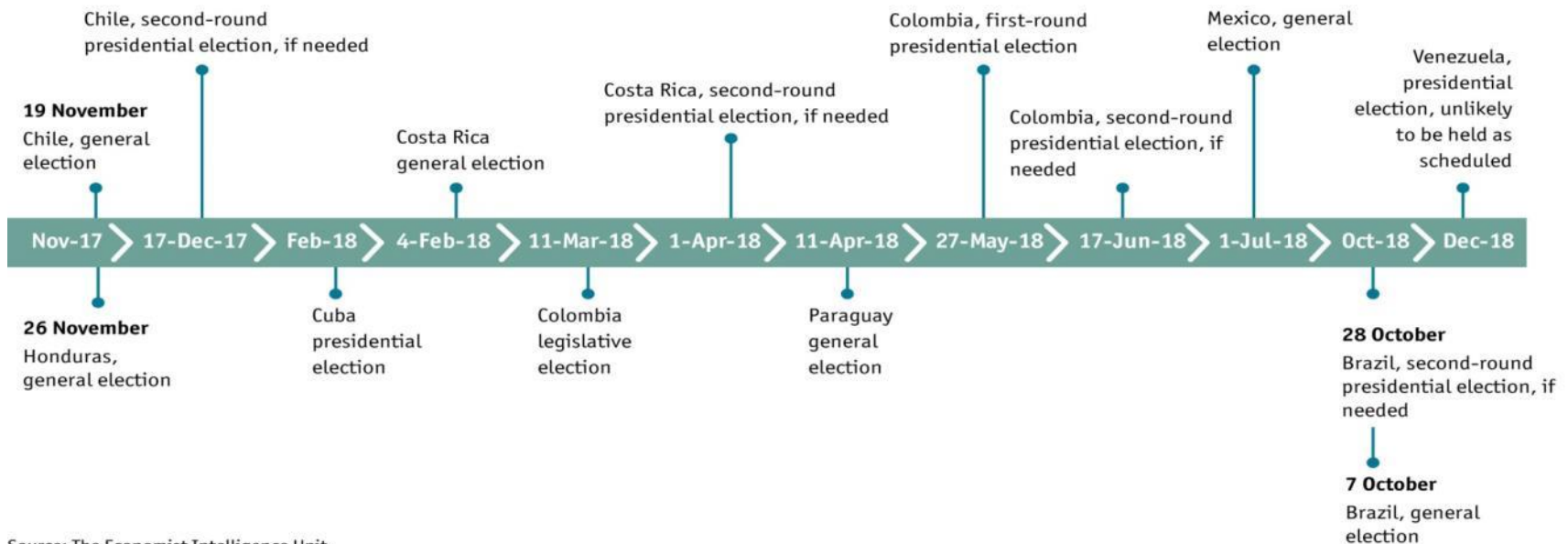


Latin America's make or break election year

Elections in the region's top economies in 2018 will determine policy direction

- Corruption scandals have boosted anti establishment sentiment
- The region's shift away from populism towards orthodox policymaking, pro-globalisation stance at risk
- Economic recovery should bolster centrist candidates
- 2018 could be a bumpy ride for Latin America

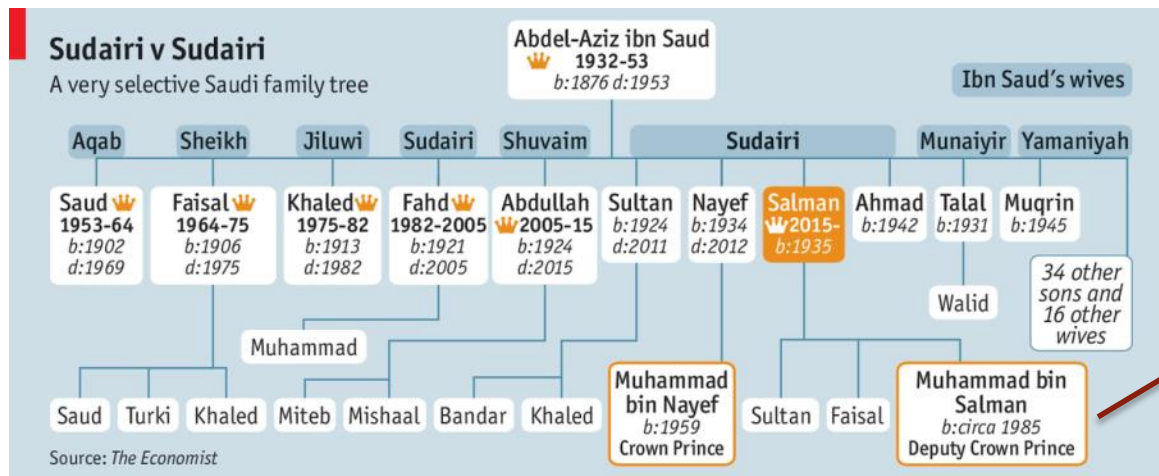
Election timeline



Source: The Economist Intelligence Unit.

Saudi Arabia: reforming fast

Slump in the oil price is driving huge structural and social shifts



- MBS has broad public support for anti-corruption crackdown (that cements his own position)
- Aramco IPO in 2018 to fund transformation of PIF into a sovereign wealth fund, designed to reduce reliance on oil
- Scourge of low oil prices means wide fiscal deficits, even as new taxes are introduced. More debt issuance to protect foreign reserves
- Foreign policy to become more assertive: backed by Trump, fear of Iran. Rivalry to play out in Yemen, Syria, Iraq, Lebanon

From 'Africa rising' to 'Africa diverging'

Excelling

- Rapid growth (>5%)*
- Non-resource dependent
- Pursuing reform agendas
- Trade and industry focus

Cote d'Ivoire, Ethiopia, Ghana, Kenya, Senegal, Tanzania and Uganda.

Holding

- Reasonable growth (3-5%)*
- Important vulnerabilities
- Resource exploitation
- Infrastructure and FDI

Cameroon, Rep. Congo, Egypt, Gabon, Morocco, Mozambique, Sudan and Zambia.

Lagging

- Slow growth (<3%)*
- Heavy weights
- Structural issues
- Long-term potential

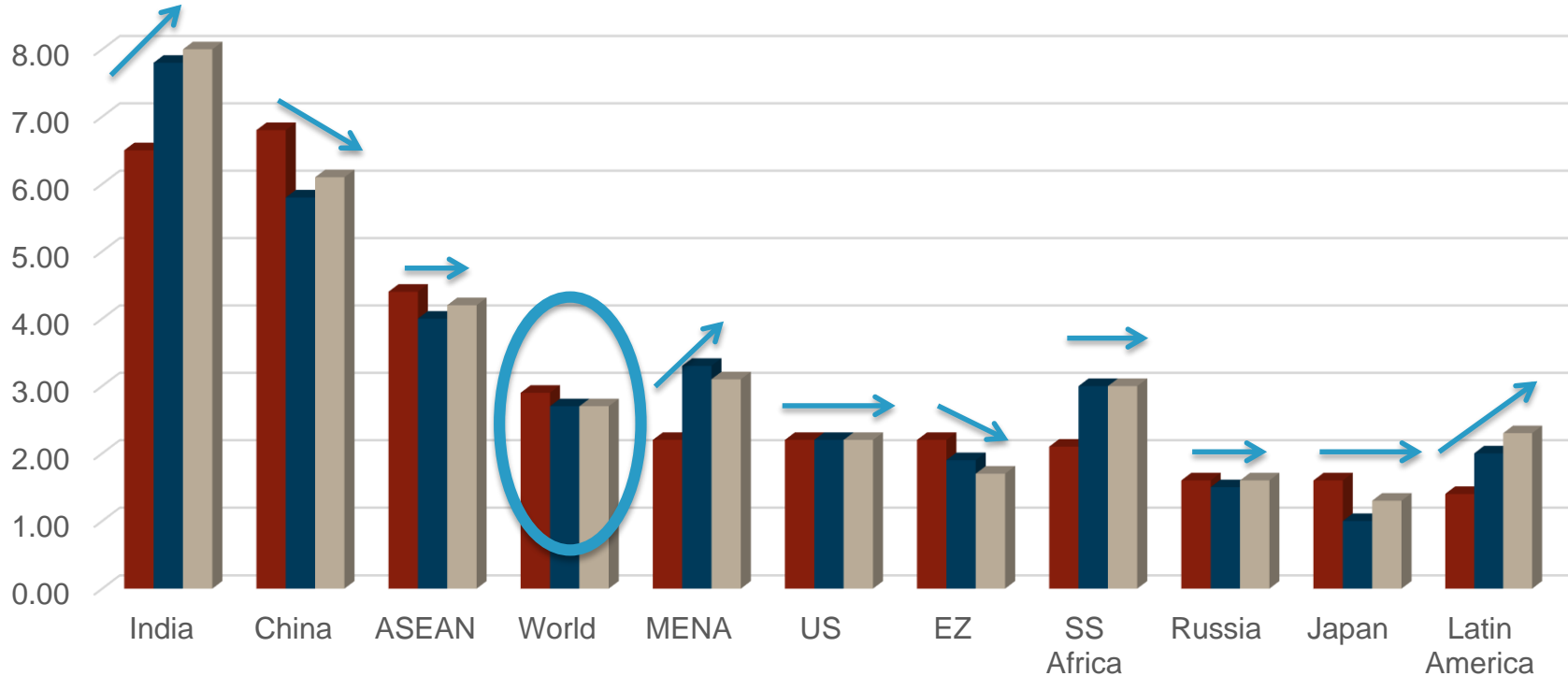
Algeria, Angola, DR Congo, Nigeria, South Africa.

* Average annual real GDP growth in 2017-21

In Summary

Global: World growth - visualised

India comes to the party



Real GDP growth; % change, year on year.

As of August 2017. Source: The Economist Intelligence Unit. ■ 2017 ■ 2018 ■ 2019

- **India to benefit from Modi's reforms**
- **US at new normal of 2%, Eurozone not far behind**
- **Some bright spots in EMs - Iran**
- **Japan — ageing shrinking workforce, tight immigration policy**

Implications for UK Universities

What does this mean for you?

Brexit is a slow burn affair but net effect likely to make things harder for universities

- Compounds an already difficult environment
 - But remember transition likely until 2021, weaker pound, EU student numbers only about a third of overseas students

US politics inflicting damage on their universities too

- And strong dollar not helping
 - Australia politics mixed at best for foreign students

Emerging markets generally picked up in 2017 (except Middle East)

- That positivity may help in the year ahead

Mood will change a bit in 2018

- Improving: India, Latin America, Middle East
- Steady: South East Asia, Russia, Africa
- Slowing: China

I suspect biggest issue you will have to contend with is “Brand UK”

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Questions?

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