



# Global Economic Review

## Robin Bew, Economist Intelligence Unit

SERVICES FOR  
INTERNATIONAL  
EDUCATION  
MARKETING  
CONFERENCE 2014

---

Sponsored by



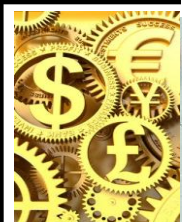
D.J.G. EXHIBITION FREIGHT SERVICES LIMITED



# Still stumbling: In search of a lasting economic recovery

December 2014

Robin Bew  
Managing Director, EIU



# Better, but not by much—and for how long?

- US performing best of large, advanced economies
  - Excluding wintry Q1, recent growth over 3% annualised
  - Japan: Improving, but hard to read
  - Europe: risk of stagnation, deflation



- It's all about monetary policy
  - US Fed, BOE are tightening; ECB, BOJ loosening
  - US dollar headed for period of strength

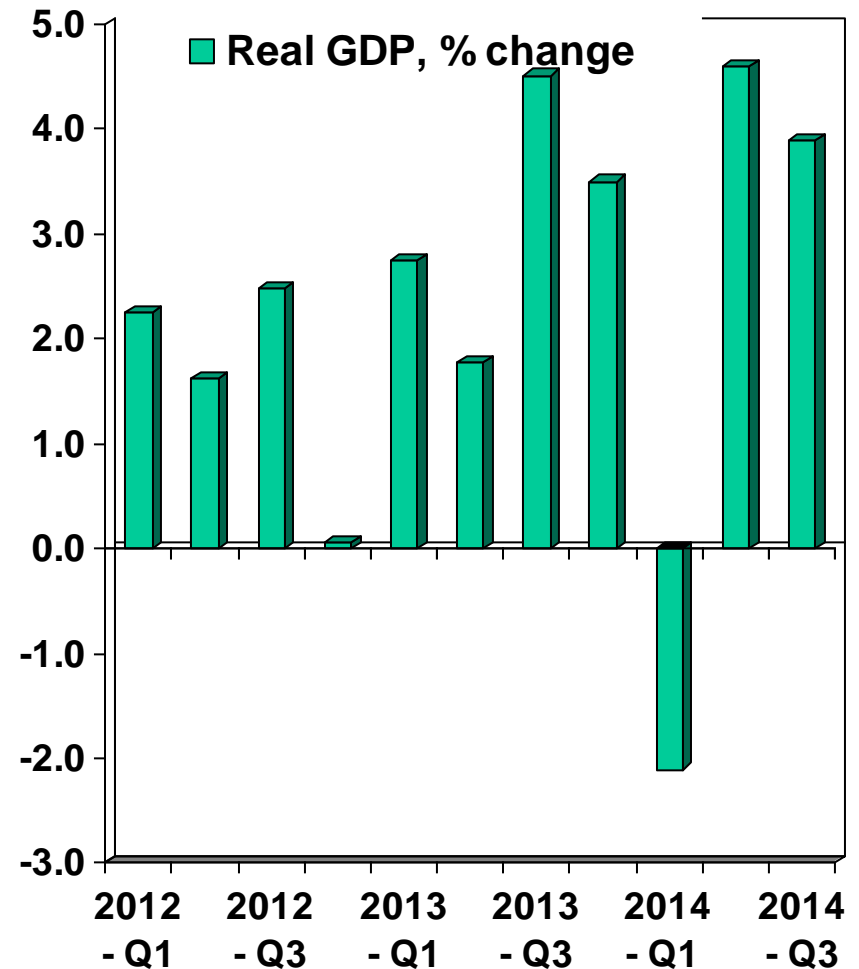


- Emerging market pressures aren't gone
  - Another sell-off (stocks, bonds, currencies) is likely in 2015

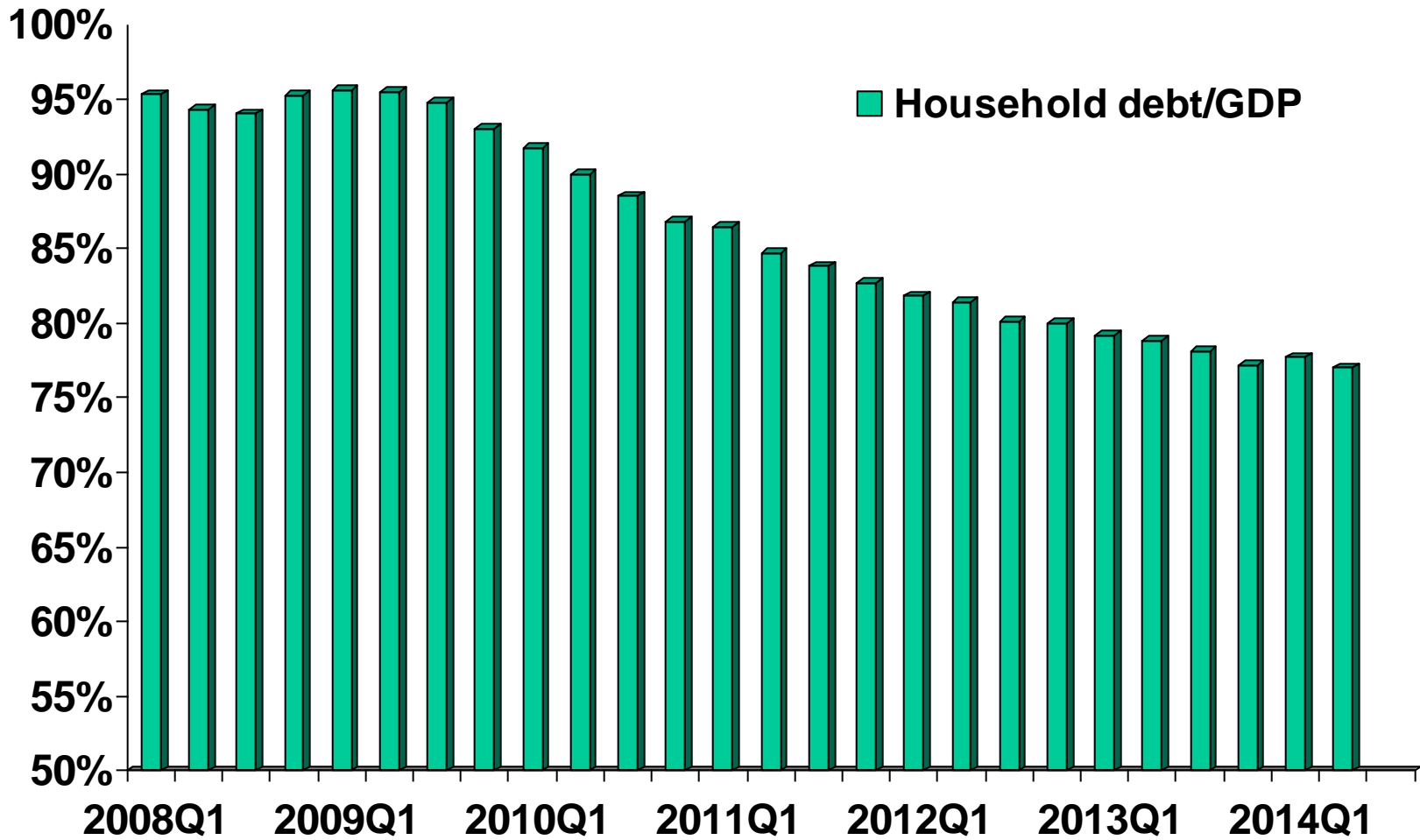
US, Euro zone and Japan

# Still confident on US recovery

- Q1 weakness mainly weather related
  - Coldest January since 1994
  - Weak investment, housing
  - Will hold growth this year down to 2.2%
- But impressive Q2 rebound
  - Growth won't continue at that pace but still robust
- More balanced growth; consumer & business spending, exports, gov't
- Still expecting 3.2% growth in 2015



# Households are paying down debt, boosting spending



Household debt outstanding as a share of nominal GDP, %.

Source: Federal Reserve

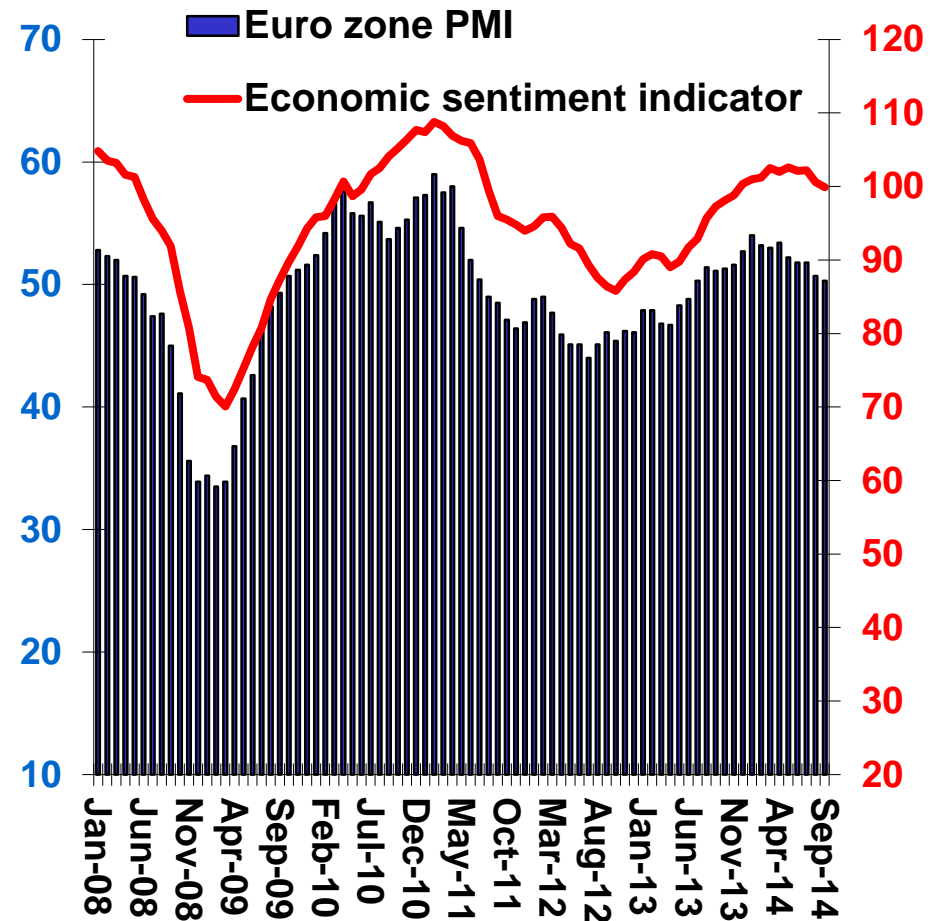
# Meanwhile, eurozone recovery on the ropes

## There is some good news

- The OMT programme removes the risk of sovereign default
- Ireland and Portugal have both returned to the debt markets
- Spain is adjusting quickly; labour costs are down and competitiveness is rising
- As a result, periphery is growing

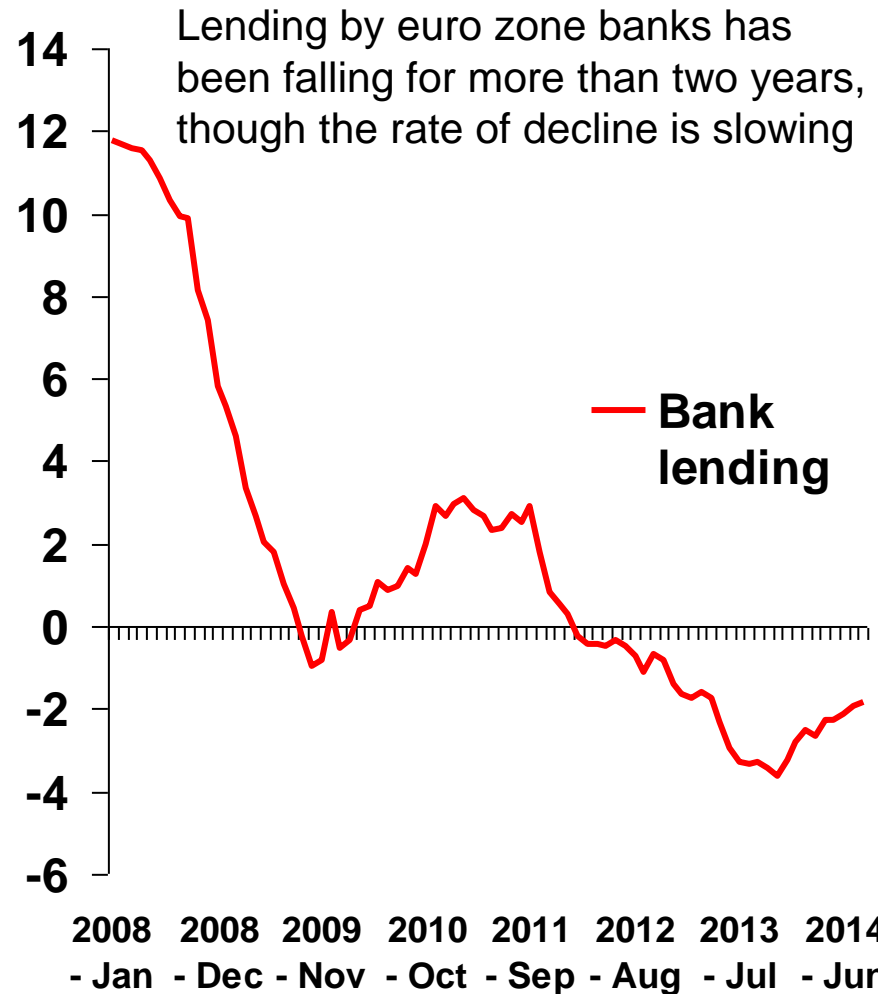
## But

- Periphery economies are small
- Core EU is shrinking again
  - Russia, China problems
- Political stasis will limit the chances of reform in Italy, France
- Deflation risks rising



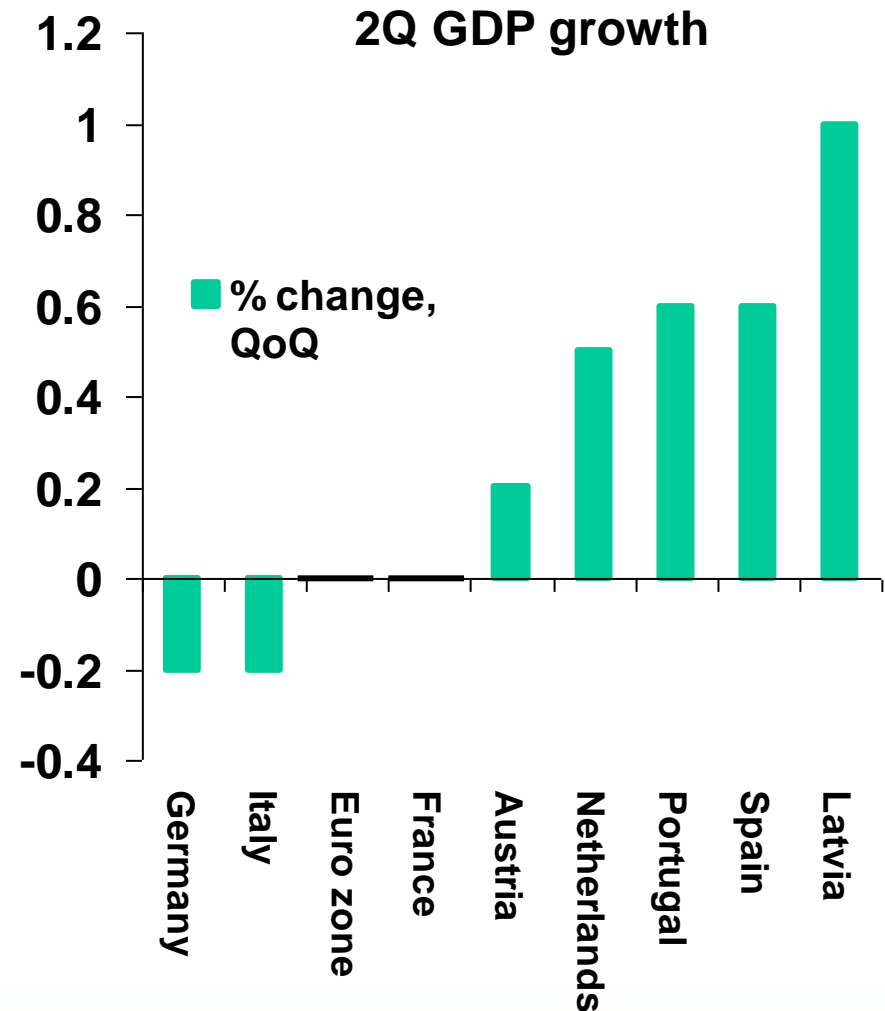
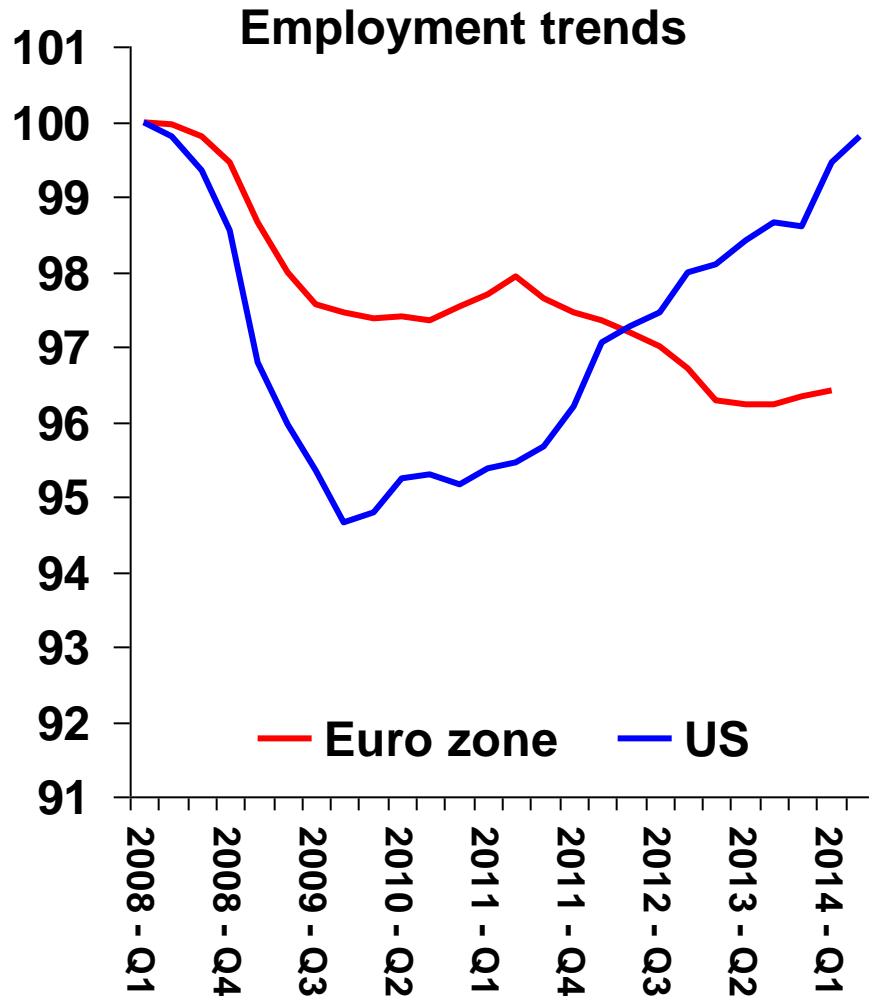
# Serious structural impediments to growth

- Debt levels remain high
  - Deleveraging has barely started
- Fiscal situation remains poor
  - Little room for stimulus
- Banks aren't lending
  - Banking reform is lagging
- ECB balance sheet too small
  - Though that is changing
- Russia/Ukraine crisis
  - Hurting nearby countries





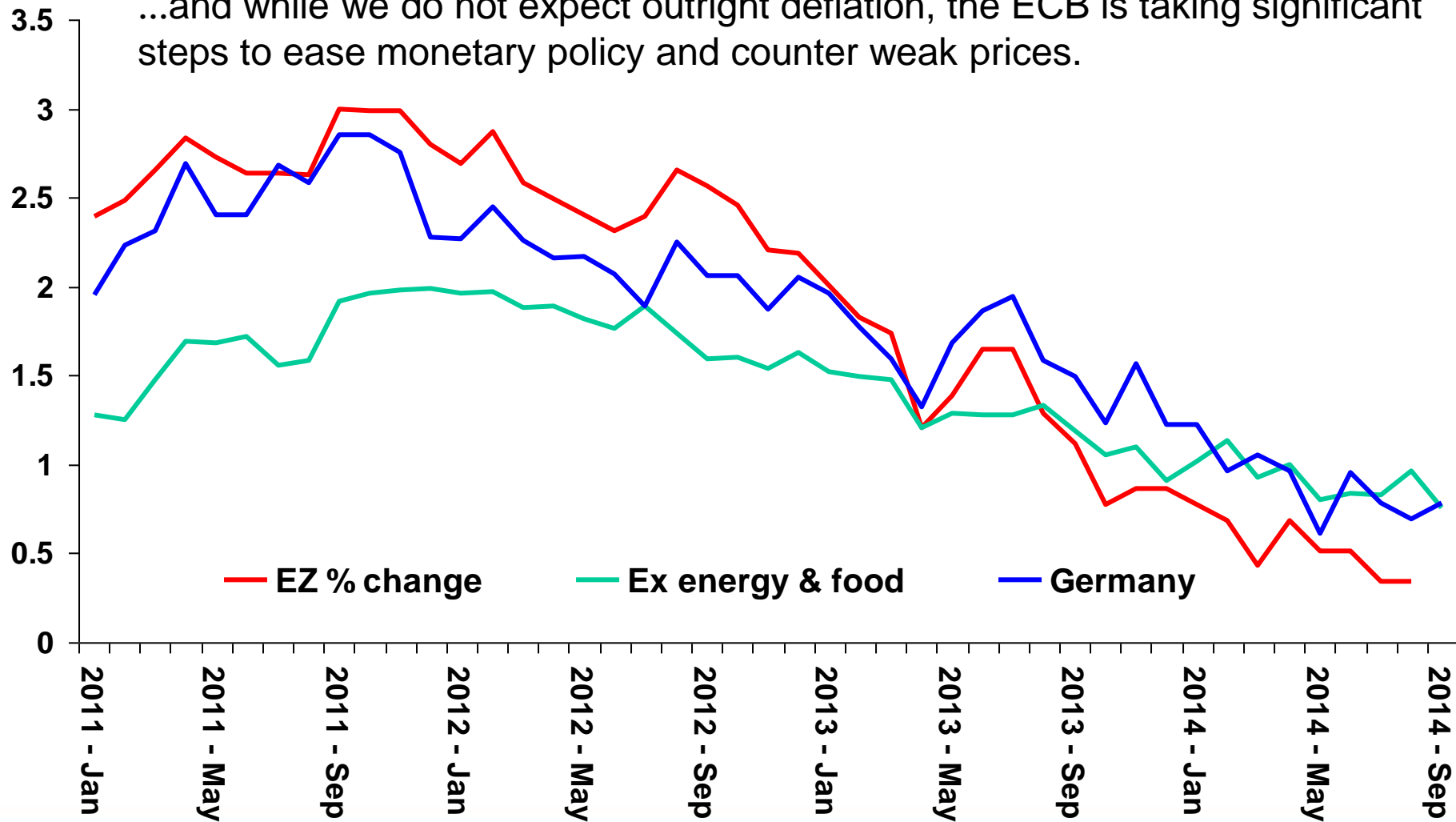
# Contrasts within EU and with US are striking



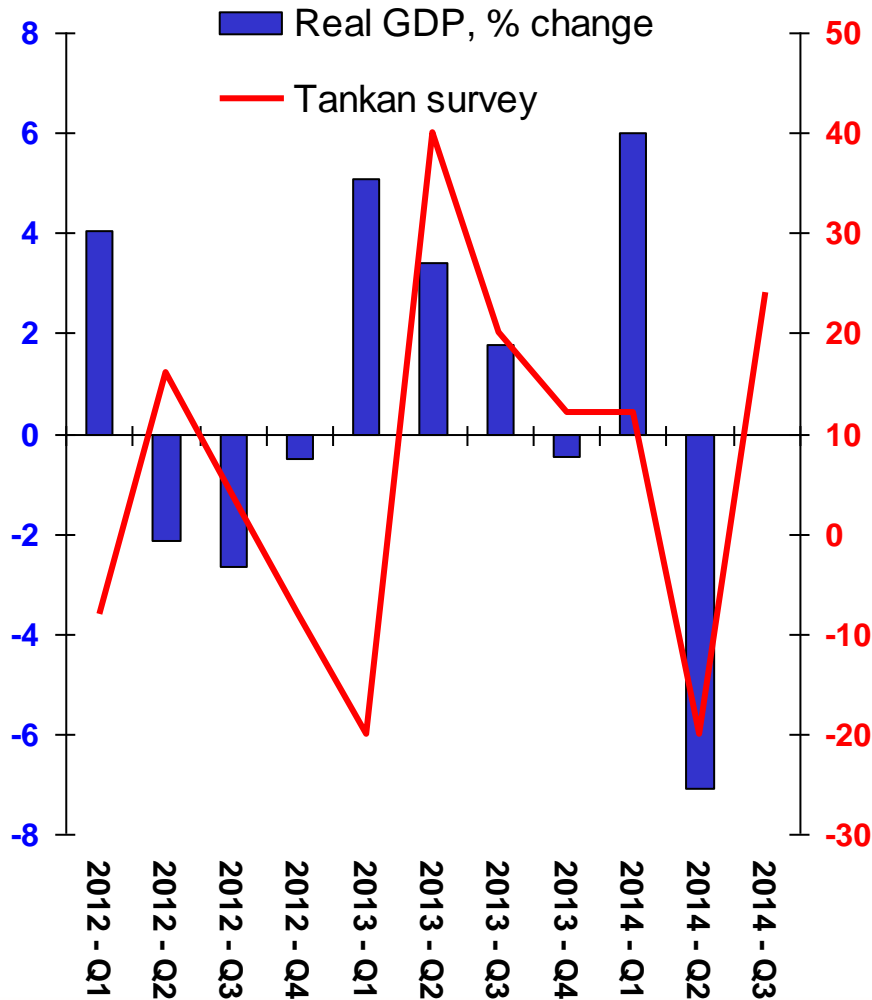
Employment, US and euro zone. Q1 2008=100. Real GDP, % change QoQ.  
Source: BLS, ECB, Eurostat, Haver Analytics.

# Prices are barely rising in the euro zone...

...and while we do not expect outright deflation, the ECB is taking significant steps to ease monetary policy and counter weak prices.



# Japan: Abenomics is helping, but...



- Tax policy distorting the economy
  - Surge in Q1 as spending jumped
  - But GDP plunged in Q2
- Business sentiment not rebounding as quickly as government would like
  - BOJ will keep policy looser, longer
  - Another tax rise off the agenda
- “Abenomics” is helping
  - Inflation is back
  - Reform agenda looks better
- Currency: We are weakening our yen forecast to average Y109:US\$1 in 2015

# Changing monetary environment

# What do we expect from the Fed?

- QE finished in October
  - This is a type of policy tightening
- Much talk of an early rise in the Fed funds rate
  - Don't count on it unless inflation or wages start rising far faster than they have to date
  - Yes, jobless rate is closing in on Fed's goal
  - Yes, inflation has accelerated, but barely reached 2% and has fallen back; no serious wage pressures
  - Fed has said it would let prices and growth run ahead of target for a while to entrench labour market gains
- We expect US GDP growth averaging around 3% for next few quarters
  - Main Fed policy rate will not rise until mid-2015 at the earliest

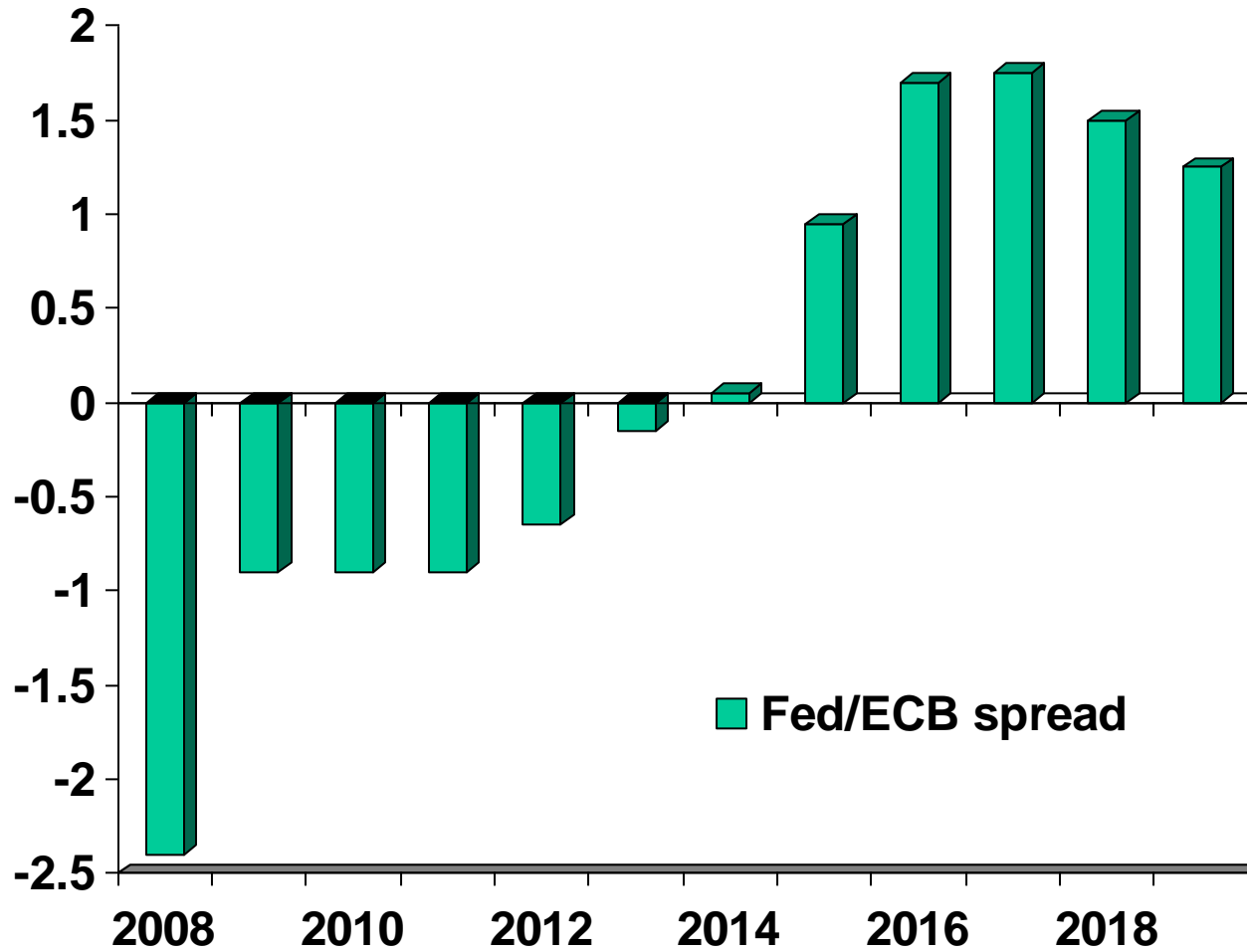


# What to expect from the ECB?



- Already cut their repo rate to 0.05%
  - Central Bank deposit rates are negative
- Next steps
  - Asset back securities and covered bond purchases now underway  
Amount undetermined, so far about €17bn per month, compared with \$85bn the Fed injected in their programme
  - Big opportunity would be QE  
Buying sovereign bonds at scale now looking likely
    - but Germany strongly against, ECB will be conservative
- Ambitious in their own terms, but not enough to change the economic or inflation story

# Spread between Fed and ECB rates will support dollar



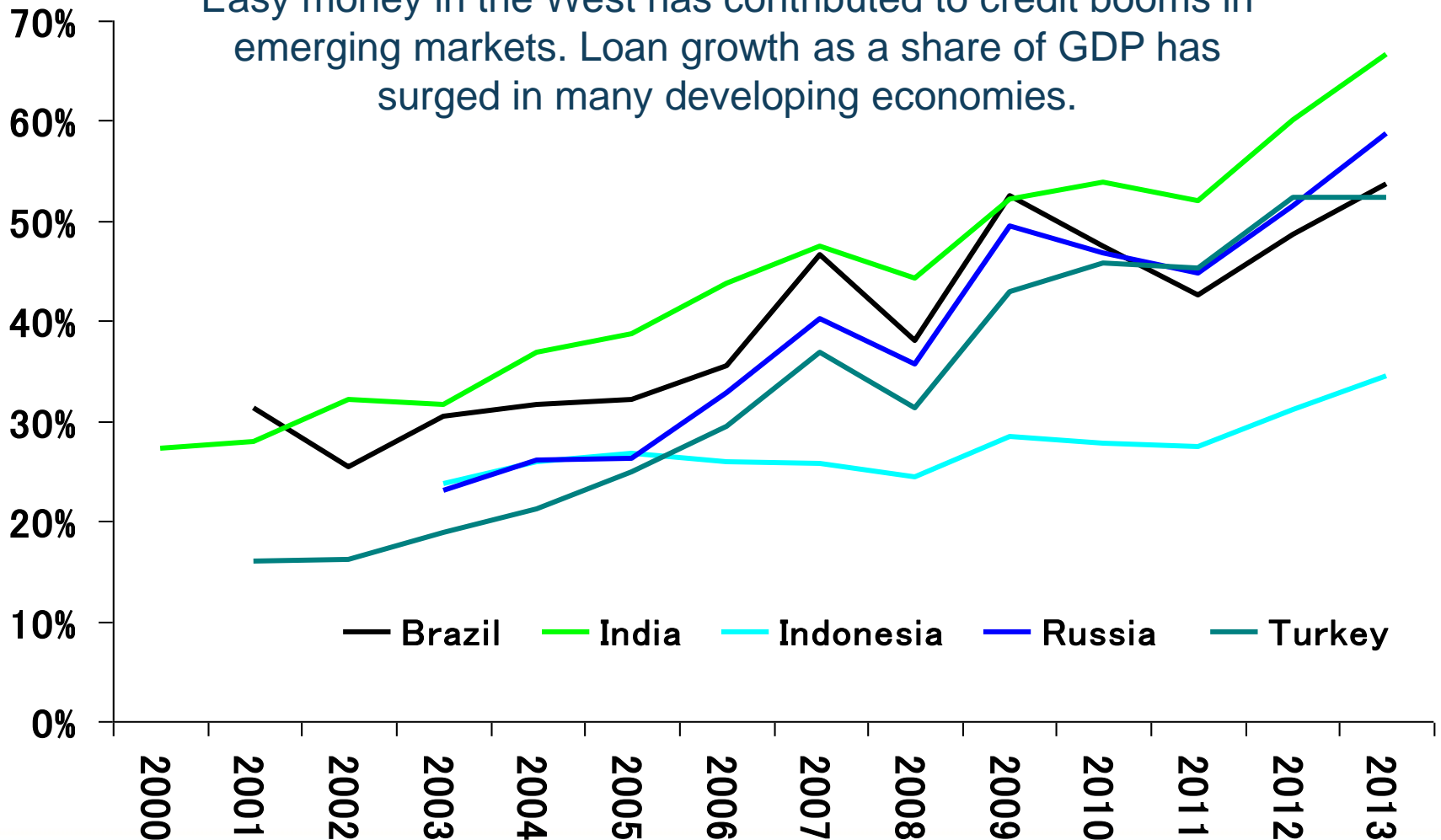
- Gap in official rates will strongly favour Fed, euro will drop to €1.16:US\$1
- Dollar will strengthen even more in 2017 as spread widens
- Will narrow thereafter, and eventually return to US\$1.26:E1 in 2019

# Emerging markets



# Credit has been surging for some time in EM's

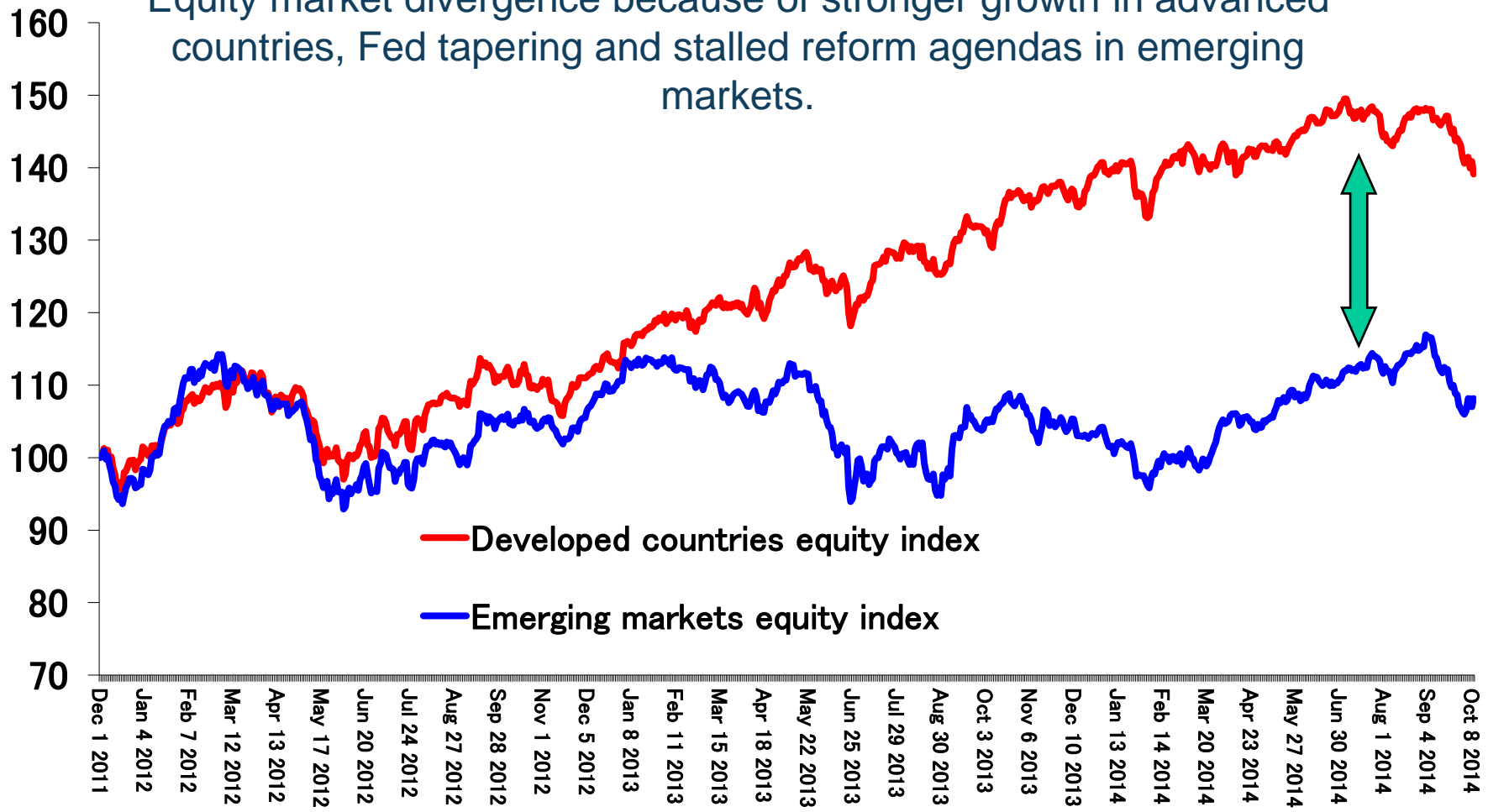
Easy money in the West has contributed to credit booms in emerging markets. Loan growth as a share of GDP has surged in many developing economies.



Total bank loans as a share of GDP. Source: National governments, Economist Intelligence Unit.

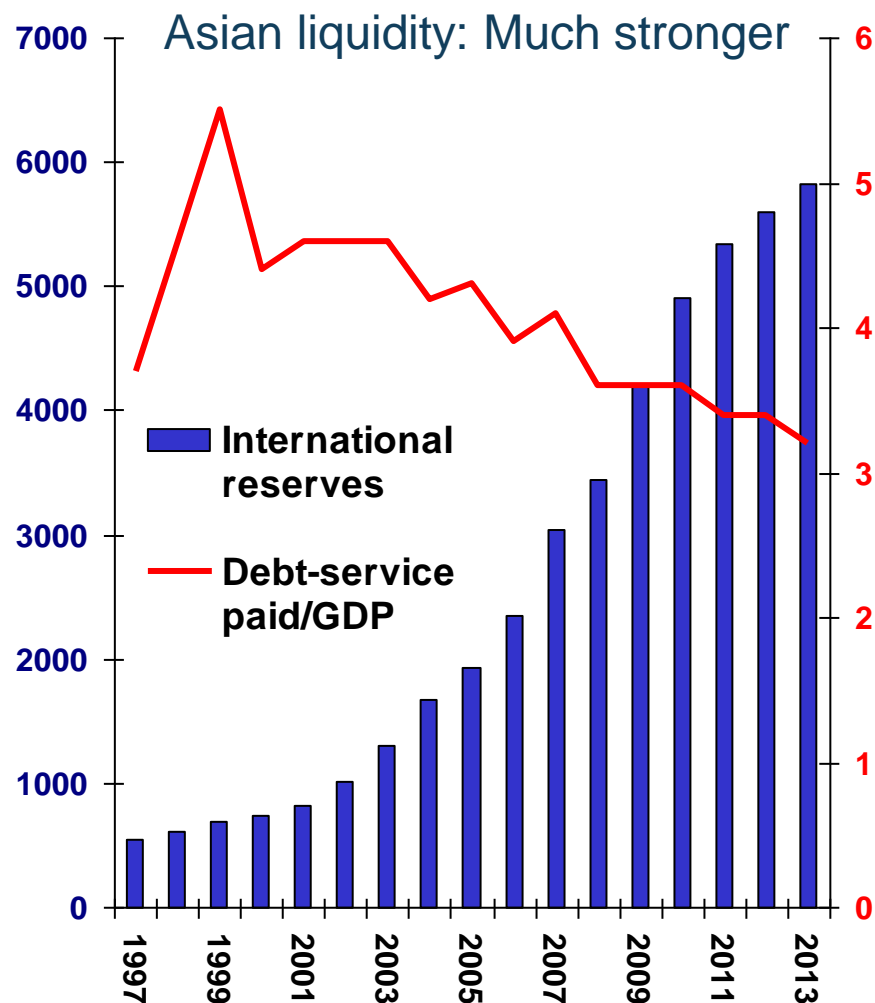
# But sentiment about prospects has turned

Equity market divergence because of stronger growth in advanced countries, Fed tapering and stalled reform agendas in emerging markets.

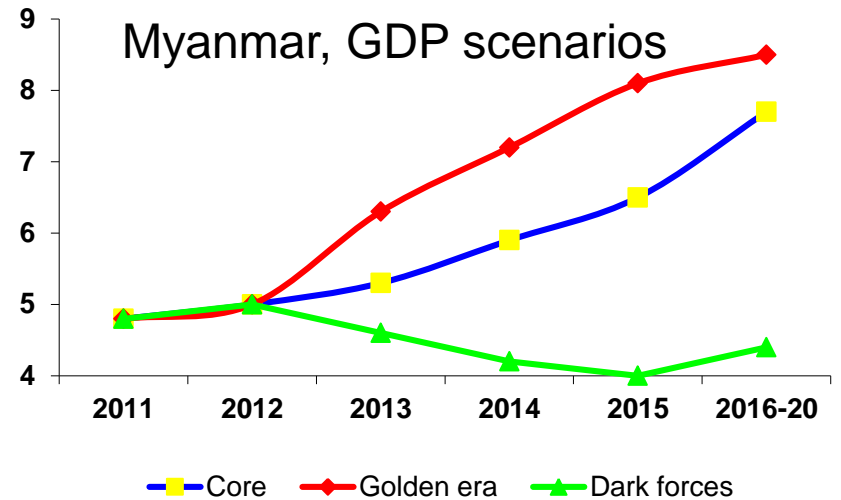
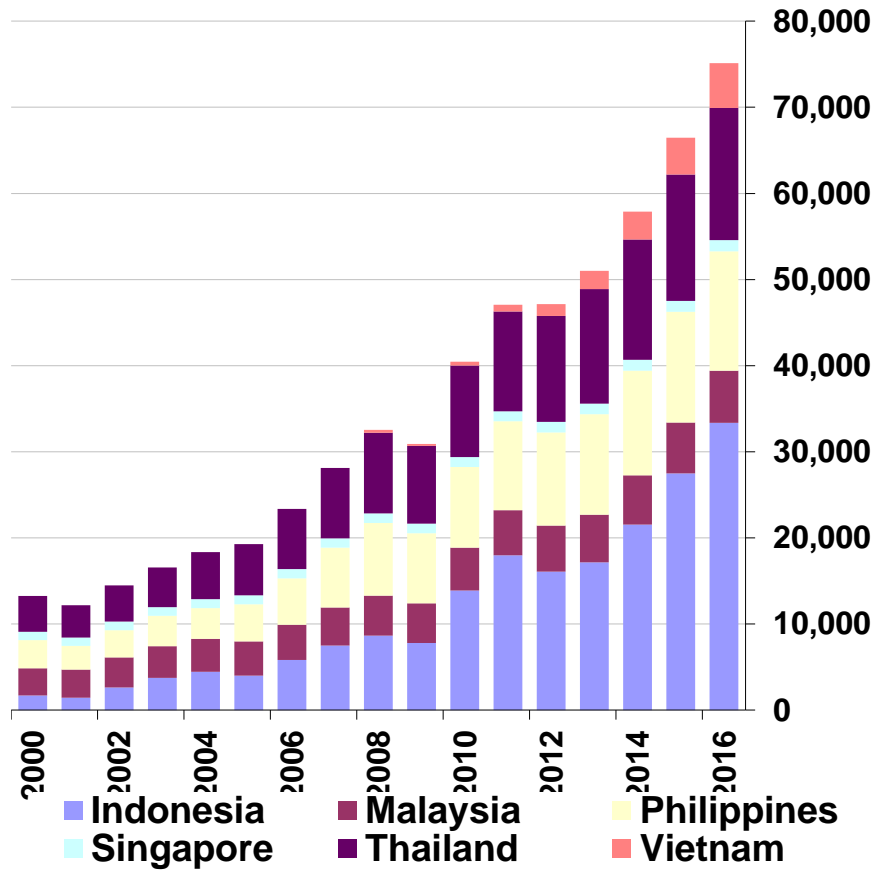


# We don't expect a major emerging world crisis

- For Asia, this is not 1997-98
  - Less foreign debt, from 35% of GDP in 1998 to 23% in 2013
  - Cost of servicing international debt much lower now
  - Value of foreign-exchange reserves has increased 10-fold, to US\$5.8trn from US\$550bn
- Some global markets are fragile
  - Brazil, India, Indonesia, South Africa and Turkey
    - But all trying to improve
    - No generalised crisis



# ASEAN: Hello, Tiger



No. of households earning > US\$10K/year. Source: EIU.

# Other regions to watch

- Mexico usurping Brazil,
  - Peru, Colombia, Chile all supported by good policies
    - Argentina and Venezuela vulnerable to US taper
- Middle East and North Africa hit by political turmoil
  - Transition to civilian rule in trouble
  - ISIS, Syria, Iraq hitting regional prospects
    - But Iran rehabilitation leading to improved performance



**The  
Economist**

MARCH ENO 879 2013

theeconomist.com

Inside China's black jails

Italy's disastrous election and the euro

The lessons from Britain's downgrade

Exporting American gas

Why you don't have to come to work

# Aspiring Africa

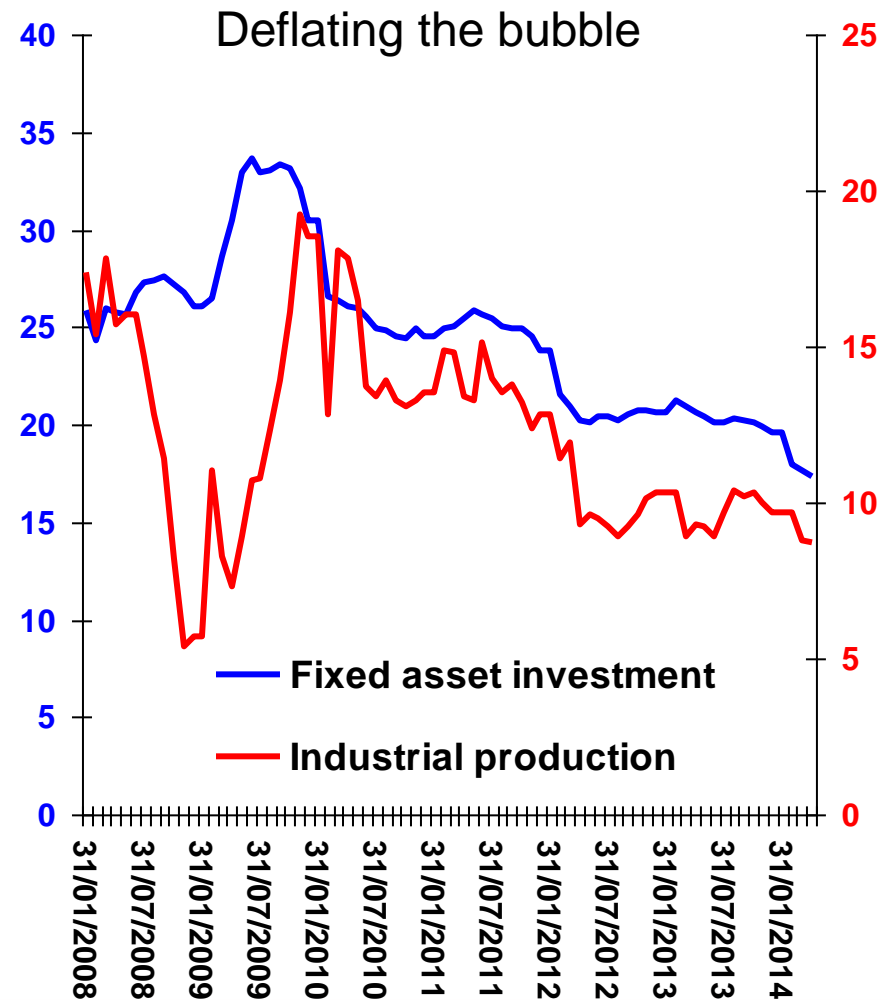


A 14-page special report on the world's fastest-growing continent

**China**

# Government committed to reining in lending, debt

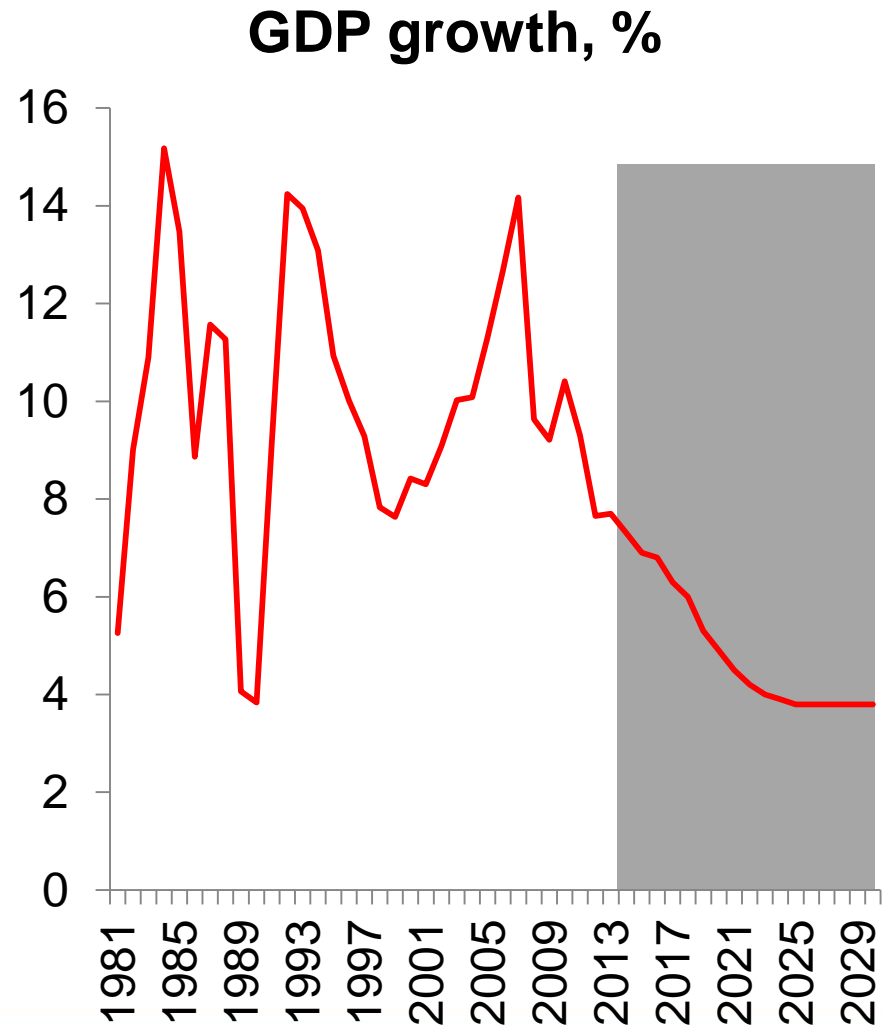
- Government emphasising debt reduction over credit-fuelled growth
- Investment, industrial production have been weakening
  - But government will place a floor under the growth rate
  - Official target is 7.5% but will tolerate something less
- Mini-stimulus is underway, infrastructure spending will be accelerated
- GDP growth should still reach 7.3%





# Opportunities and challenges

- Old growth model of throwing credit at the economy is broken
  - Embarking on the biggest policy shift for 30 years
    - From investment to consumption
    - From state to private
    - From coast to interior
    - From inwards looking to outwards looking
    - From low income to middle income
    - **From double digit growth to moderate growth**
- Generally making a good job of this shift
  - But risky



# Going inland, going global

## Inbound investment changing fast

- Eastern seaboard FDI falling sharply
  - North-east, West and central to be growth areas
    - ▶ FDI in these regions rising by 20-30% per year, will be in top 10 destinations
    - ▶ This FDI is largely in service sector, and chasing domestic demand

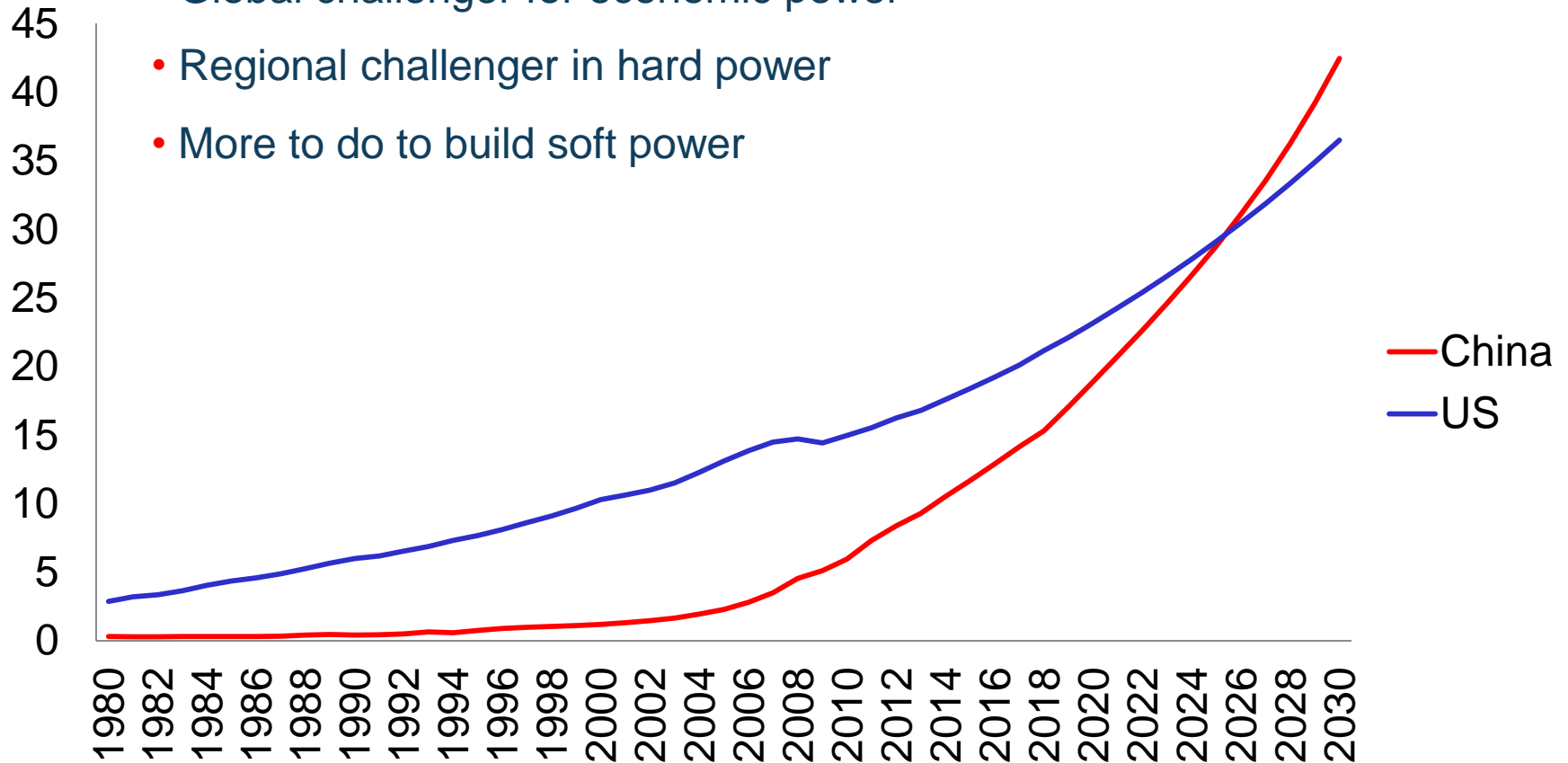


## China leaping up the investment rankings

- 3<sup>rd</sup> biggest outbound investor in world (expect outflows of \$157bn this year)
  - Will be net outbound investor by 2018
- Increasing role of private sector in outbound investment
  - Motivations are tapping new markets, gaining brands, buying IP

# Obvious signs of international success

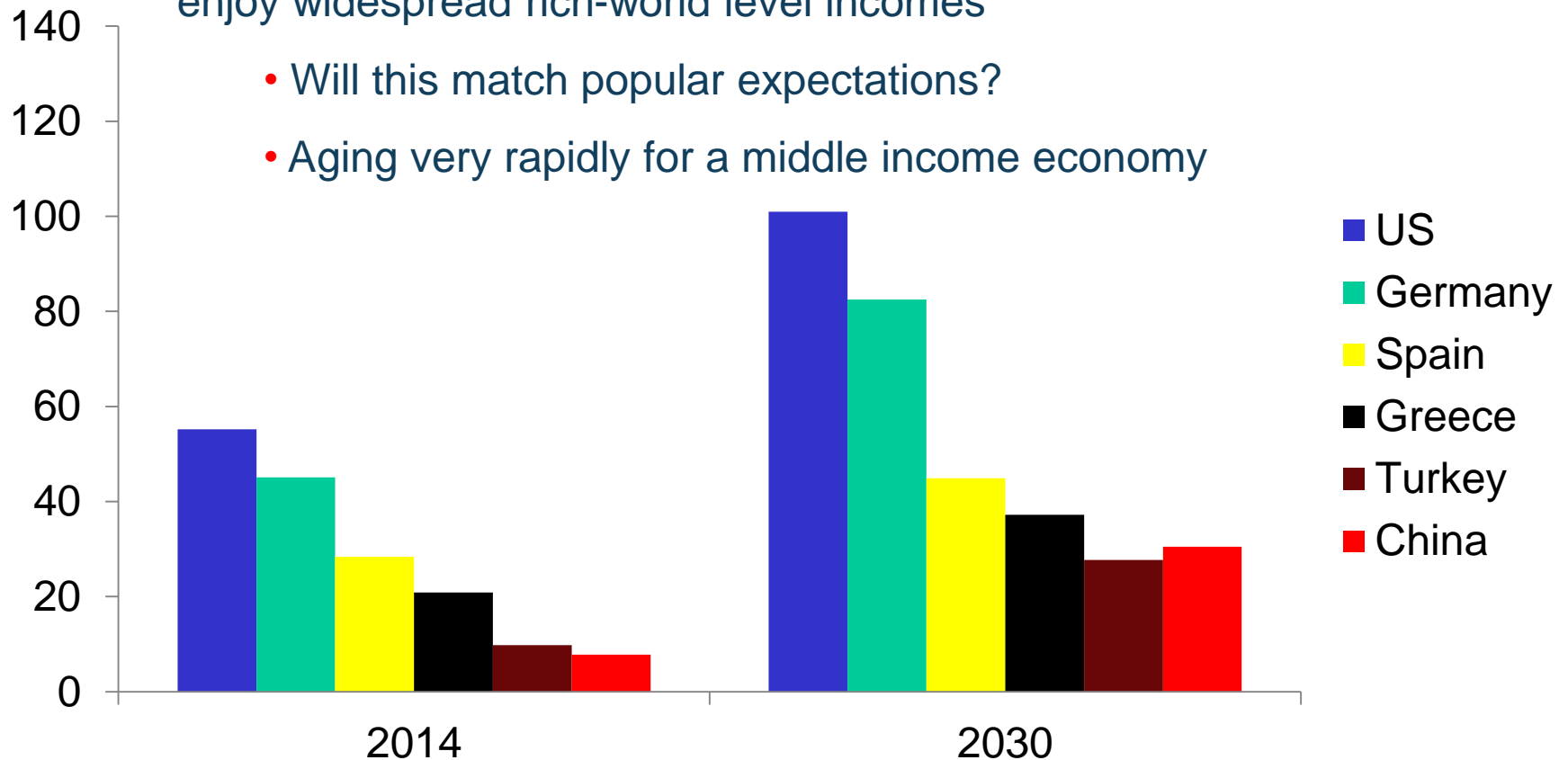
- Global challenger for economic power
- Regional challenger in hard power
- More to do to build soft power



# The politics of getting old before getting rich

Living standard improvements hugely impressive, but will not enjoy widespread rich-world level incomes

- Will this match popular expectations?
- Aging very rapidly for a middle income economy



# The return of politics

# Governments which are too weak, or too strong?



# Russia, Ukraine and the West: a stalemate likely

- A frozen conflict in eastern Ukraine the most likely outcome
  - West unwilling to risk economic recovery on Crimea, E Ukraine
- Sanctions have increased on both sides, but crafted not to be crippling
  - Energy still off the table
  - Europe exposed through reliance on Gazprom, Russia through reliance on energy exports
  - Russia would feel the pain before Europe; energy = 2/3rds exports
  - Expect easing of EU sanctions in 2015



# Conclusion



# A new narrative for the world economy



- Opportunities are at home and abroad
  - US recovery, real and sustainable
    - Japan more modest, Europe still flat lining
  - China is slower, but richer
- Politics is back
  - Emerging market powerhouses challenge the world order; Russia, China
  - Disenfranchised populations want recognition; Arab spring, Syria, Venezuela
    - Successful businesses learn to operate in these environments
- Difficult policy choices
  - Choice between populist policies and reformist policies; India, France
  - Risk for business that policy will not be kind
- Source of investment is changing
  - China outbound investment will gain acceptance
  - China will increasingly become a competitive force in western markets

# What does it mean for education?

- A number of countries pushing up the economic value curve
  - China, but also Brazil, Malaysia, Gulf states, Central Eastern Europe etc
    - Education becoming a vital part of macro-economic strategy
      - ▶ Affordability improving
      - ▶ What is the need – vocational vs degree
- Local vs international
  - Fees, visa negative for UK. Exchange rate not helping
    - Importance of the broader environment
      - ▶ Education, real estate, financial openness, **work experience**, social experience
- Impact of instability abroad
  - Sadly positive

# Questions?

For free country analysis, weekly newsletters and special reports on industries and markets, visit:

[www.eiu.com](http://www.eiu.com)

Follow me on Twitter at @robinbew