



# Global Economic Outlook

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High seas and strong winds



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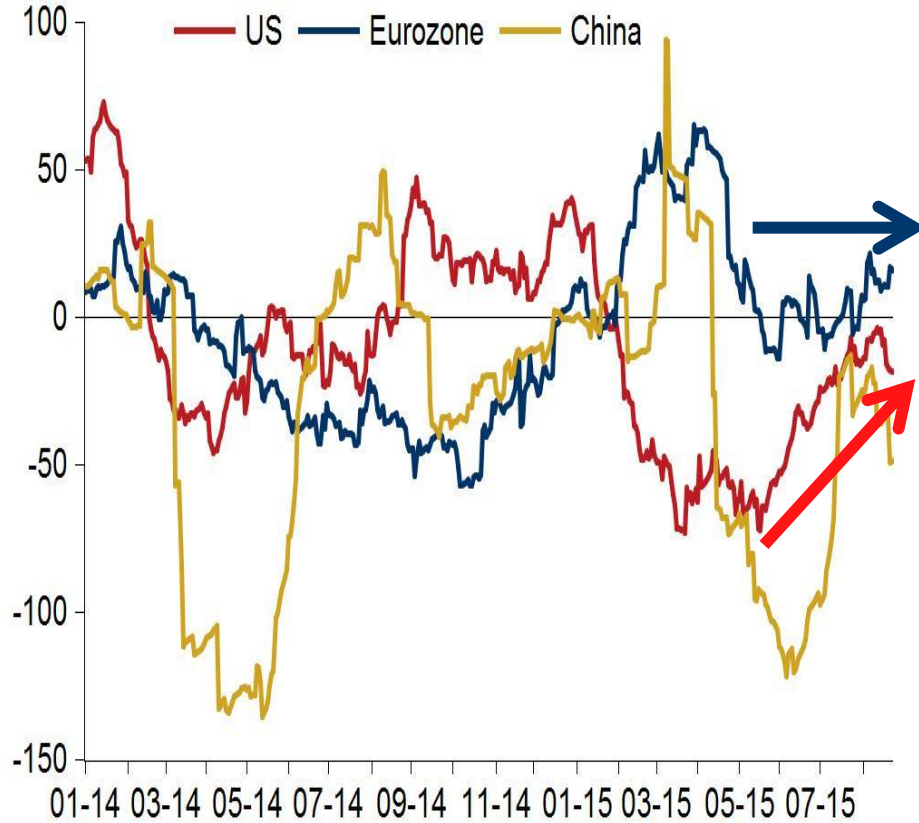
Twitter: @GregDaco

**August 2015**

# Global growth moving sideways...

## World: Citigroup economic surprise indices

% balance of positive/negative surprises in economic data releases

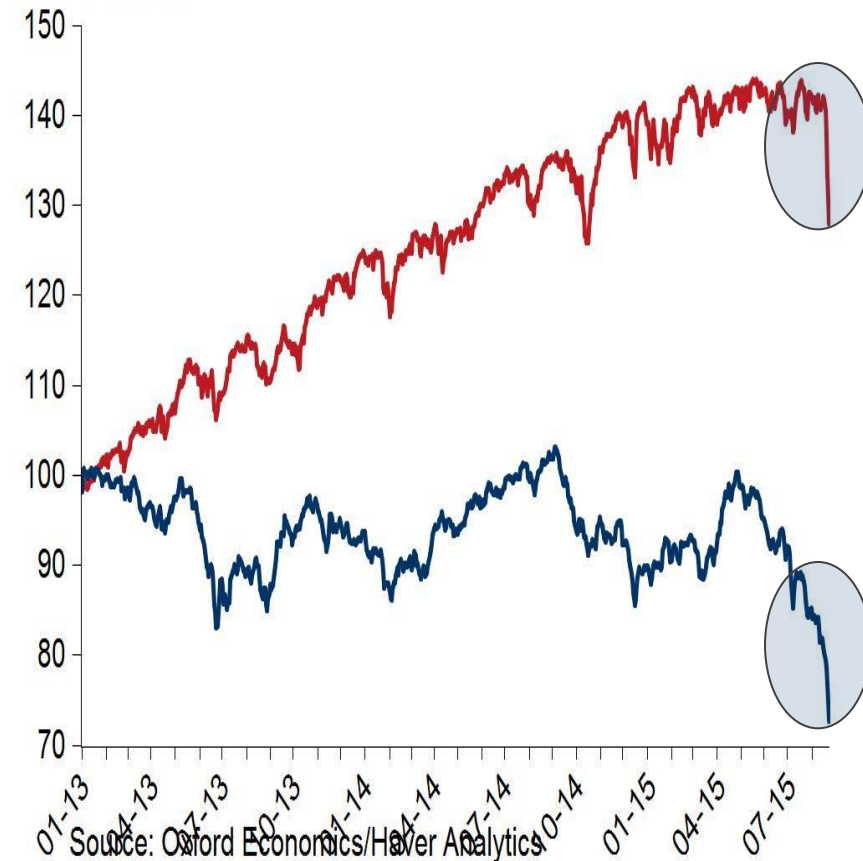


Source: Oxford Economics/Haver Analytics

## US: Stock market performance

Jan 2013=100

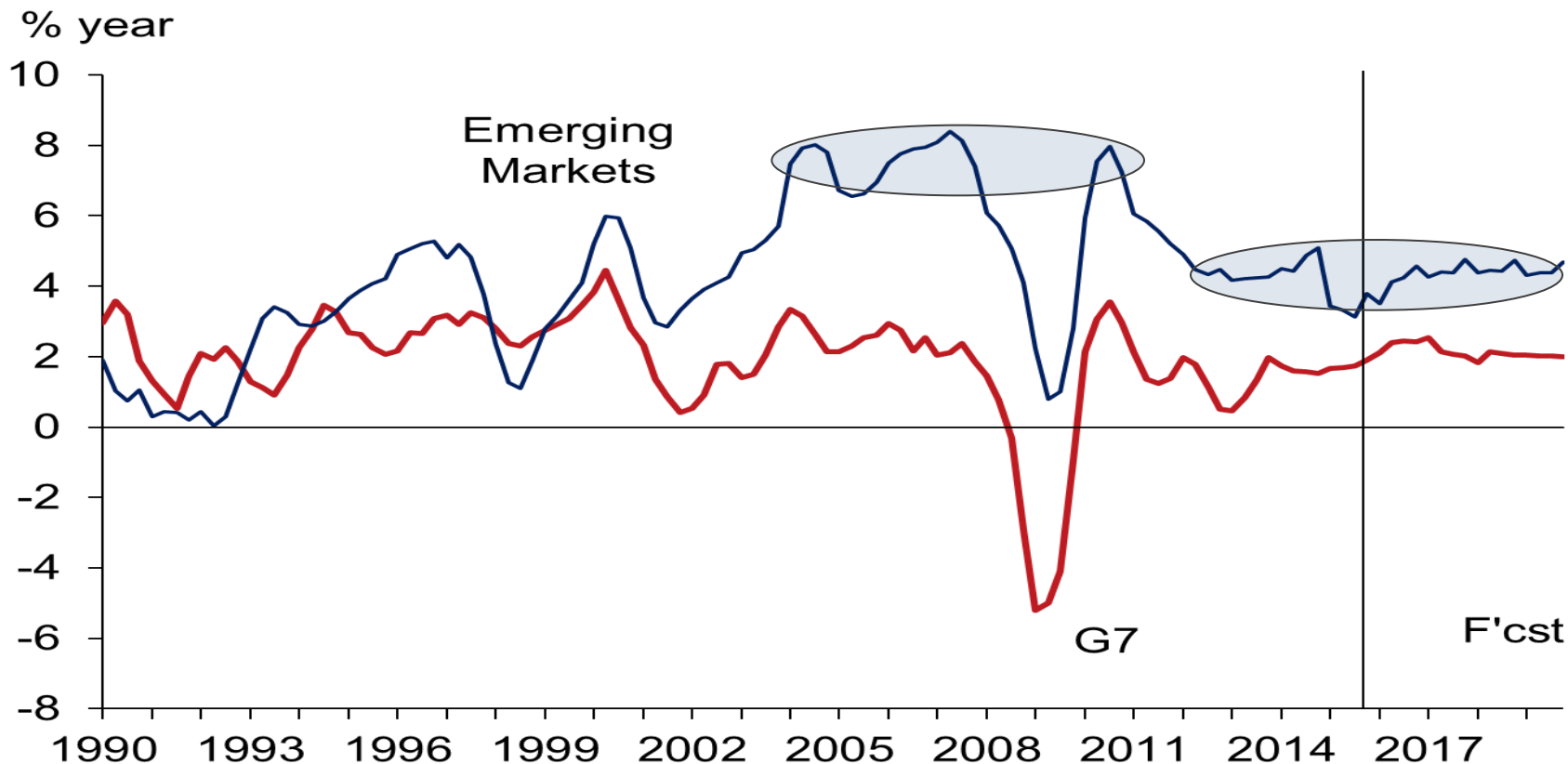
— S&P 500 — MSCI Emerging Markets



Source: Oxford Economics/Haver Analytics

# Emerging markets struggling to regain luster

## G7 & Emerging Markets: GDP growth



Source: Oxford Economics

- Commodity super cycle is over
- Reduced capital inflows
- Reduced prospects for debt financed demand
- Strong US\$: increasing debt burden

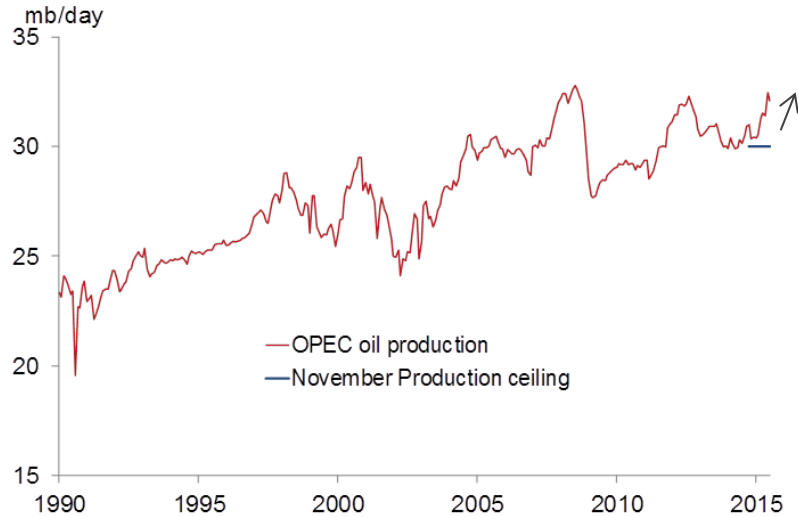


Combine this with:

- Reduced fiscal space
- Reduce monetary policy space

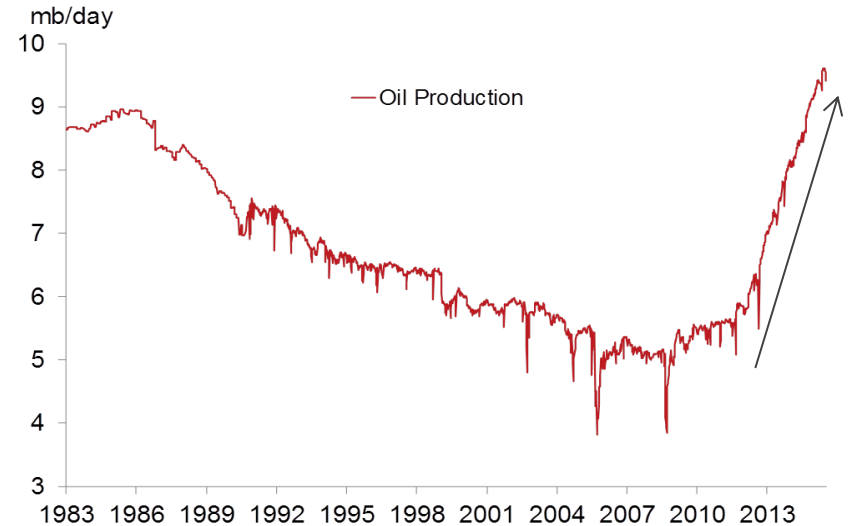
# ...with commodities prices falling

## OPEC oil production



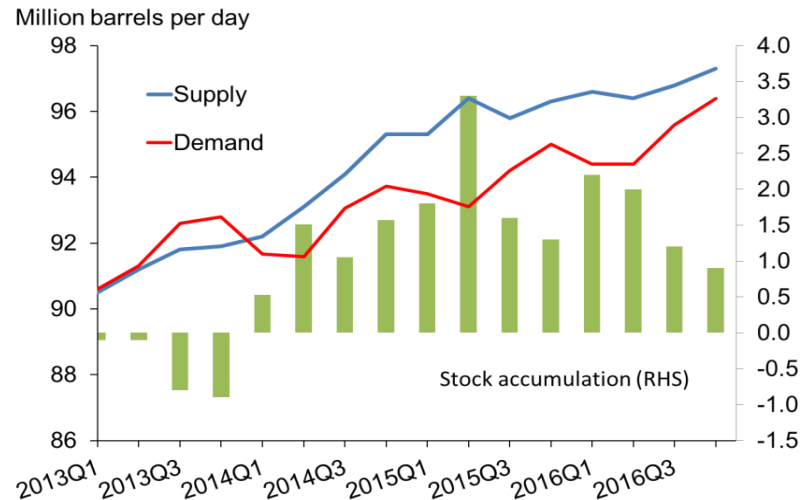
Source: Oxford Economics/Bloomberg

## US Weekly Oil Production



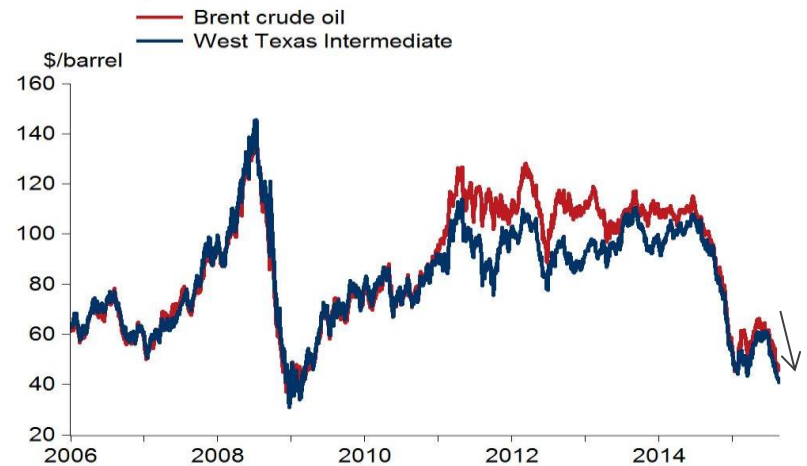
Source: Oxford Economics/Bloomberg

## US: World crude oil production and demand



Source: International Energy Agency/Oxford Economics

## US: Oil prices

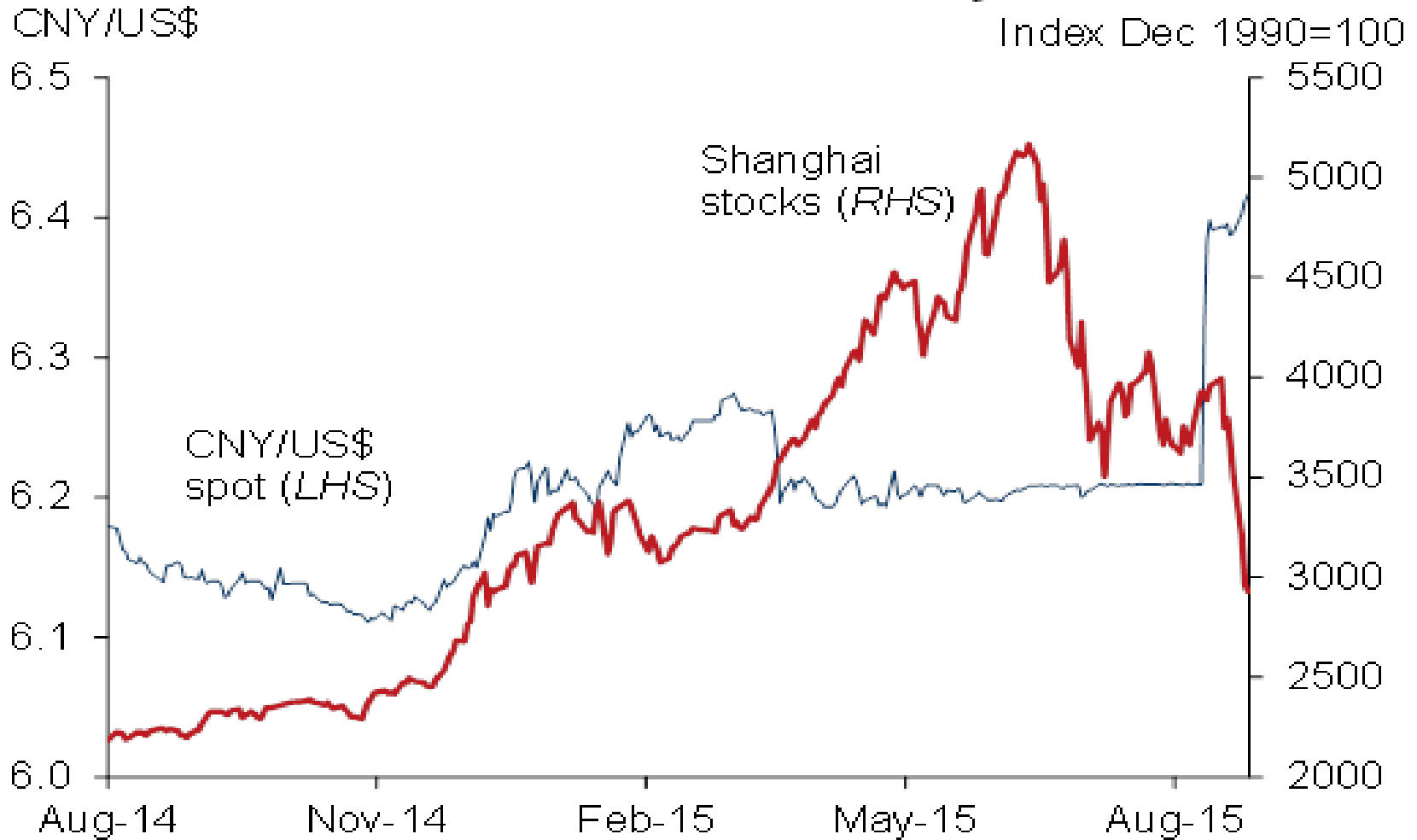


Source: Oxford Economics/Haver Analytics

# **BRICS, or China and the spare RIBS**

# China: unmistakable signs...

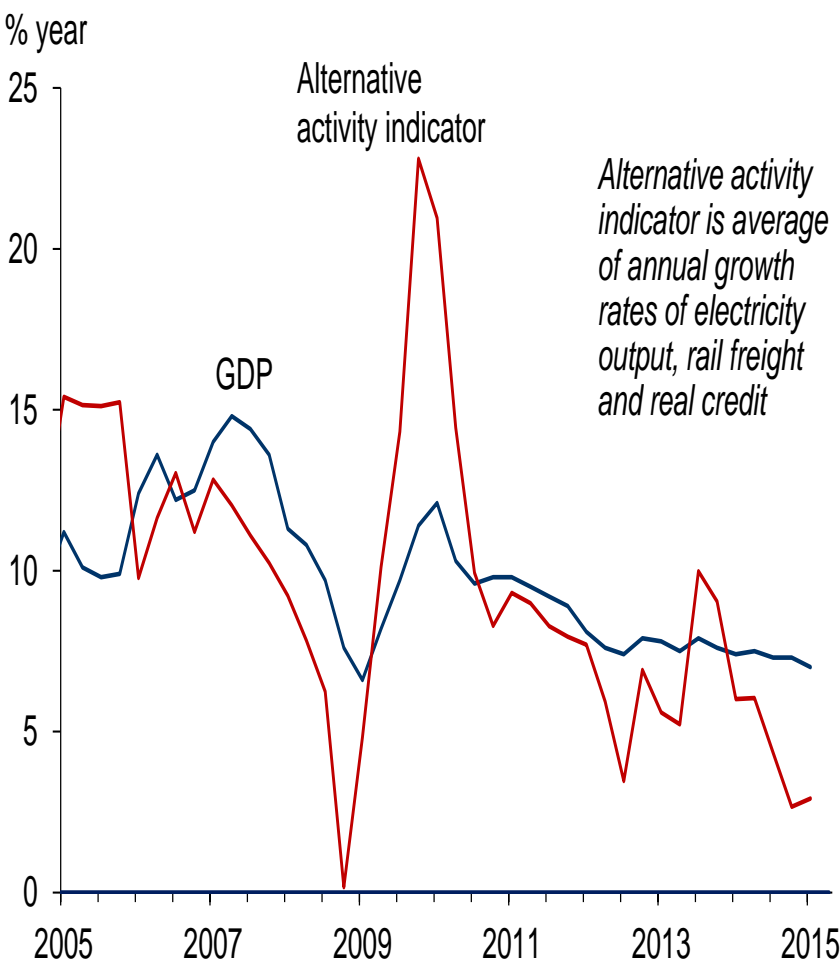
## China: Stock market and currency





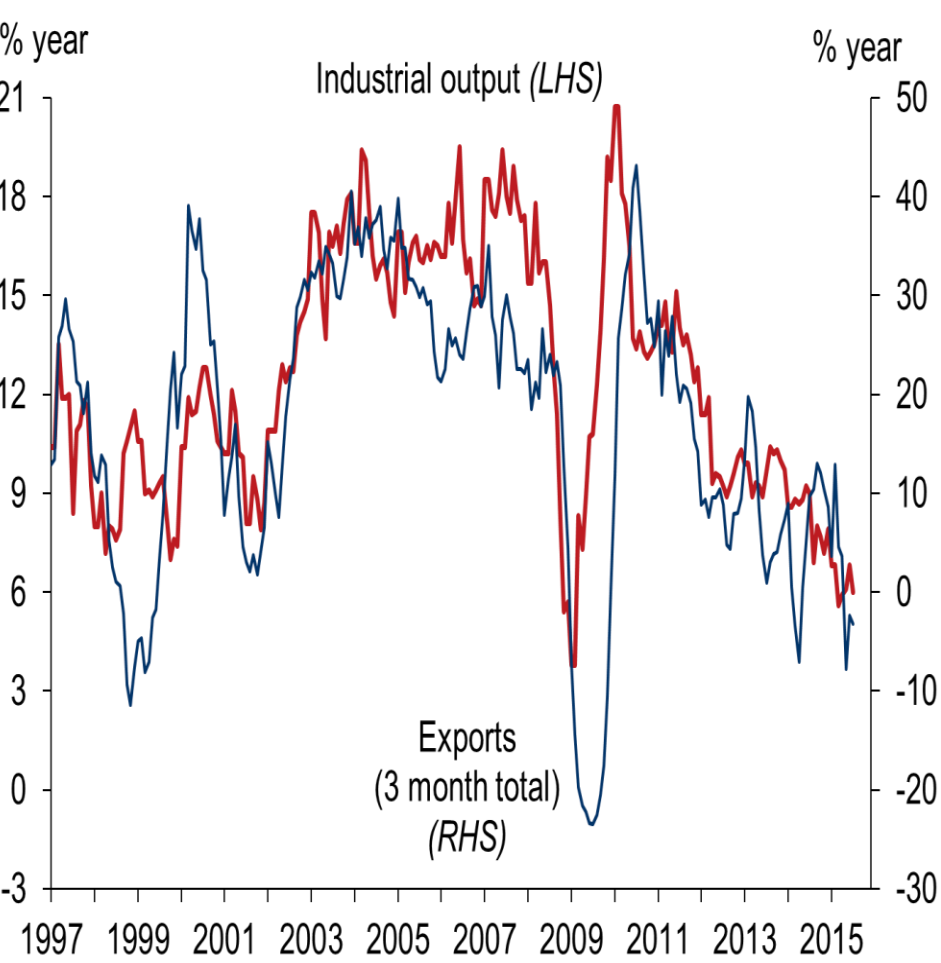
# China: Alternative indicator hints at sharp slowdown

China: GDP growth and alternative indicator



Source: Oxford Economics/Haver Analytics

China: Industrial output & exports

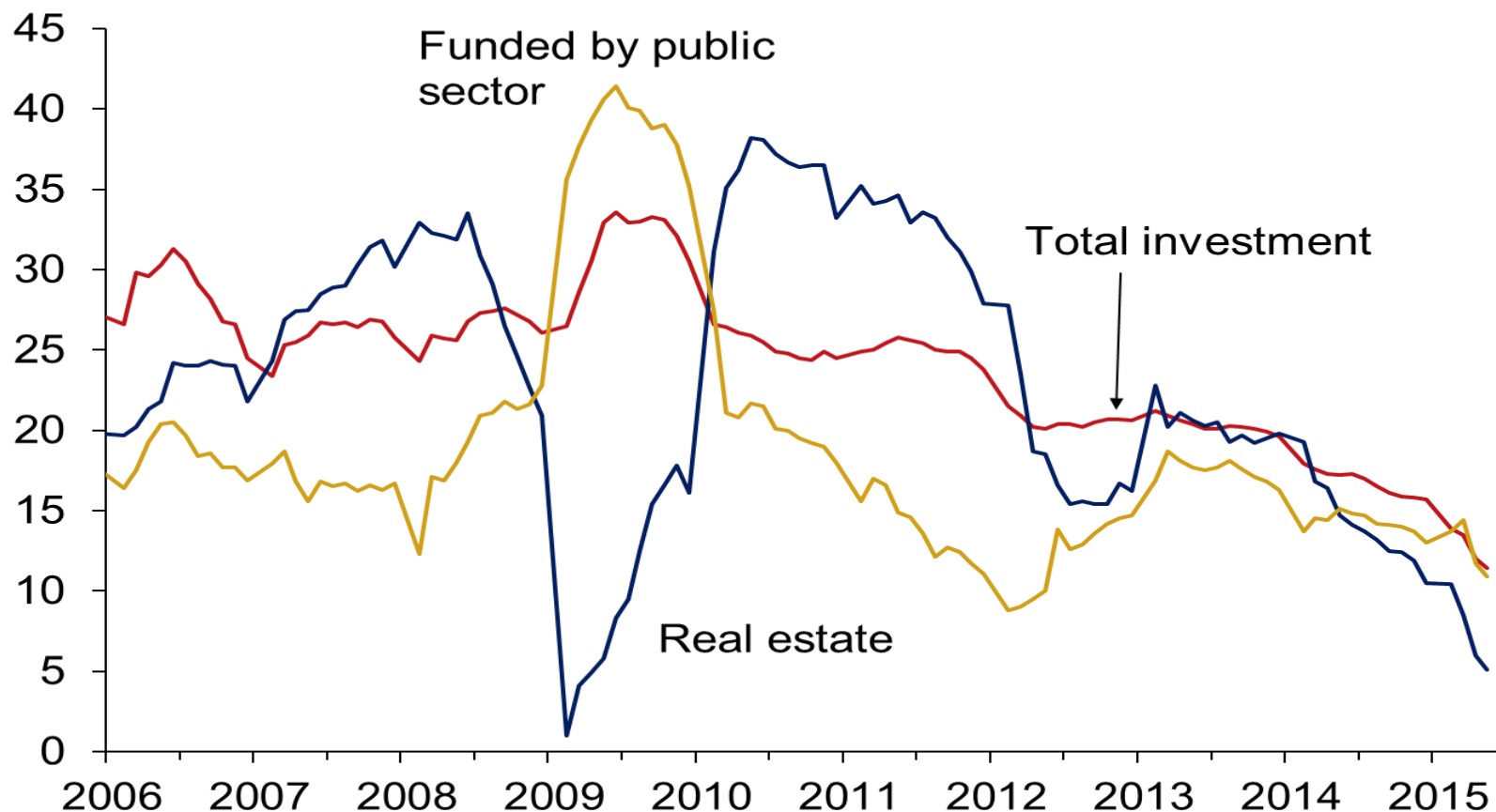


Source: Haver Analytics

# Sharp downturn across all sectors...

## China: Investment in fixed assets

% year

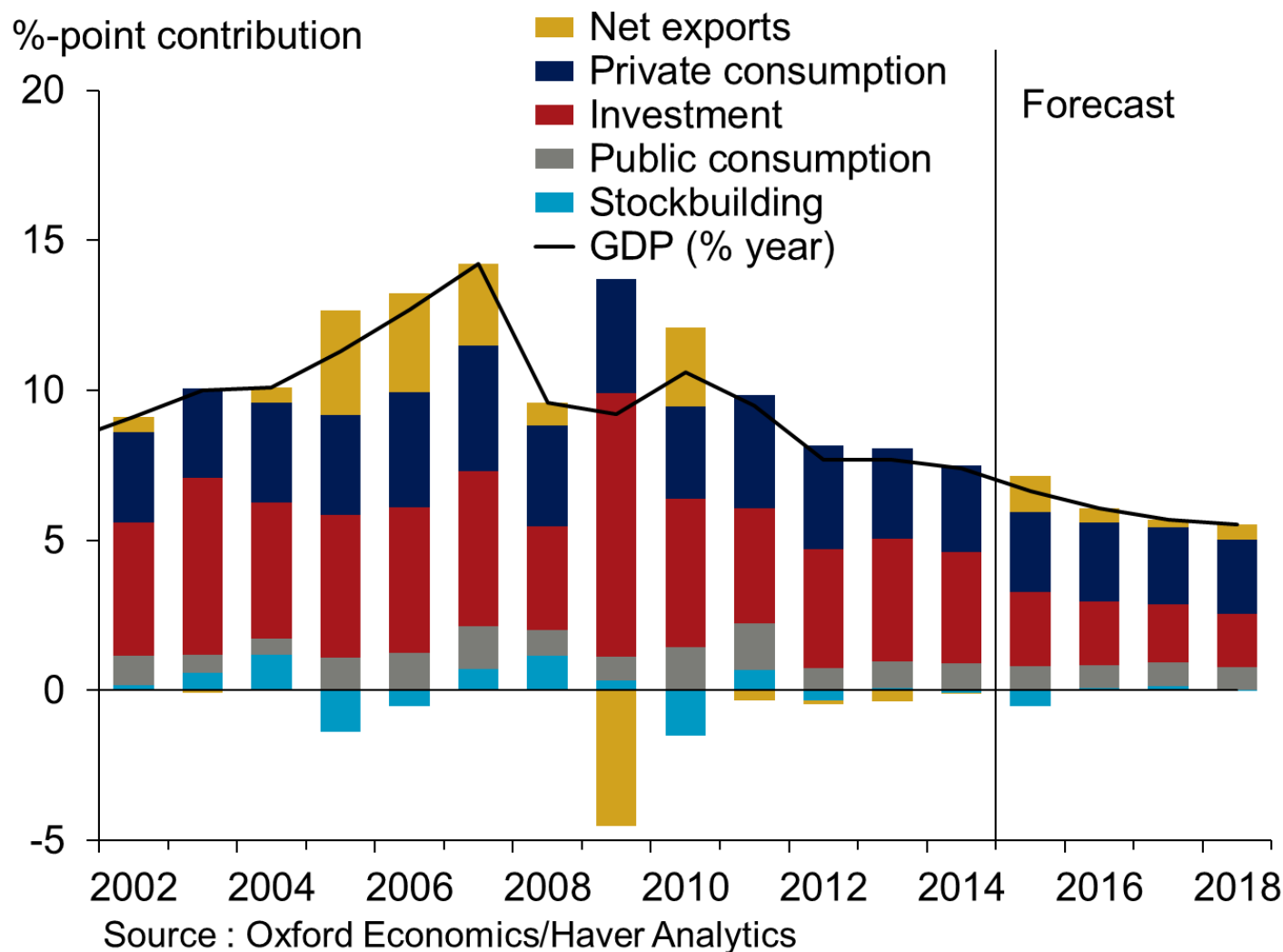


Source: Oxford Economics/Haver Analytics



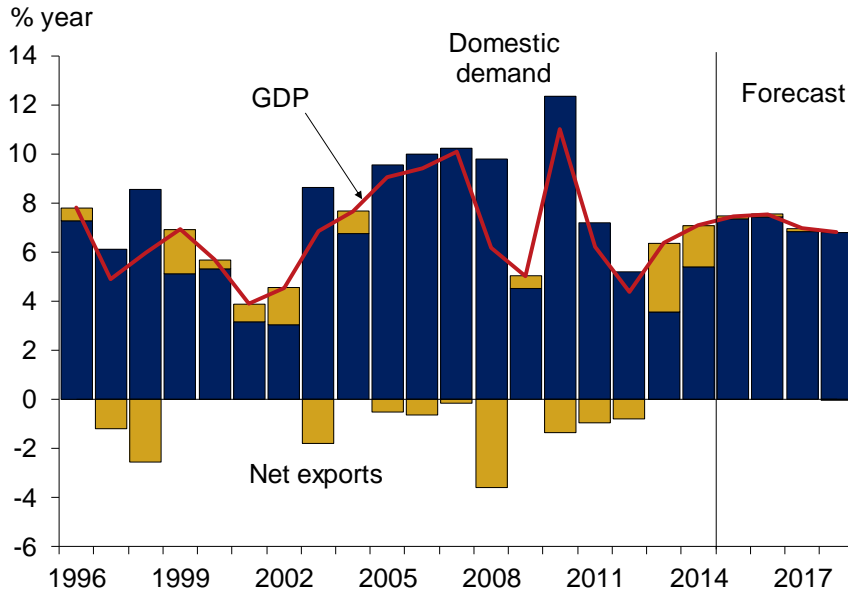
# Declining growth prospects

## China: Contributions to real GDP growth

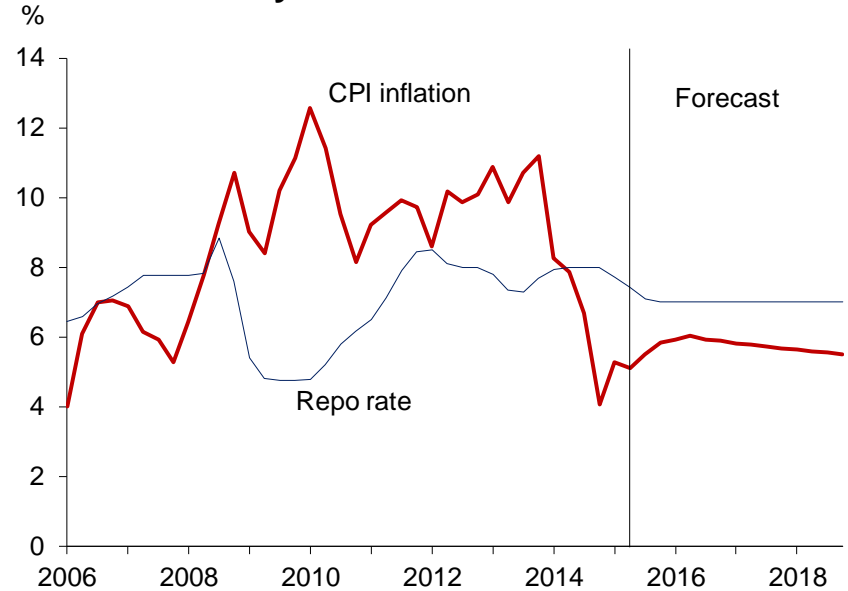


# India - a bright spot among the emergers

## India: Contributions to GDP



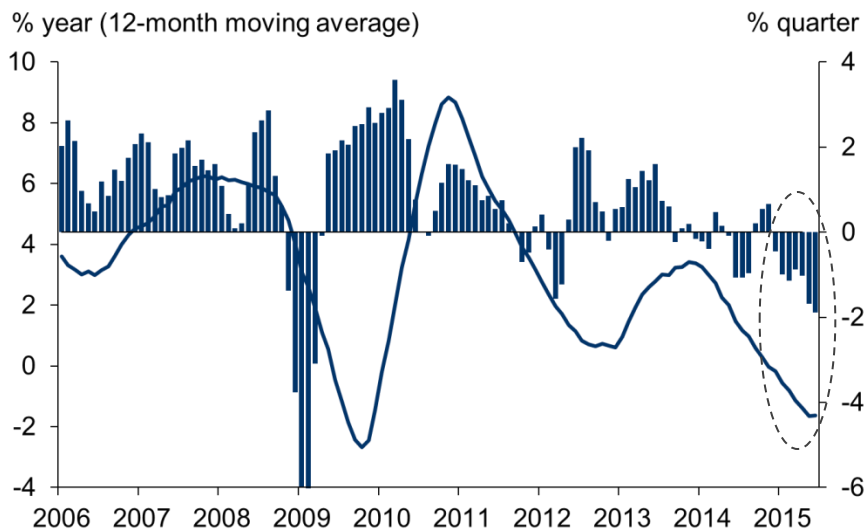
## India: Monetary conditions



- The euphoria on Indian economy has given way to cautious optimism due to slow progress on reforms, stagnant private investment and subdued growth in consumption indicators
- We expect supportive macro policy measures to engineer a revival in Q4, pushing overall growth to 7.5% in 2015
- Subdued inflation readings (food) should allow for another 25bp RBI cut

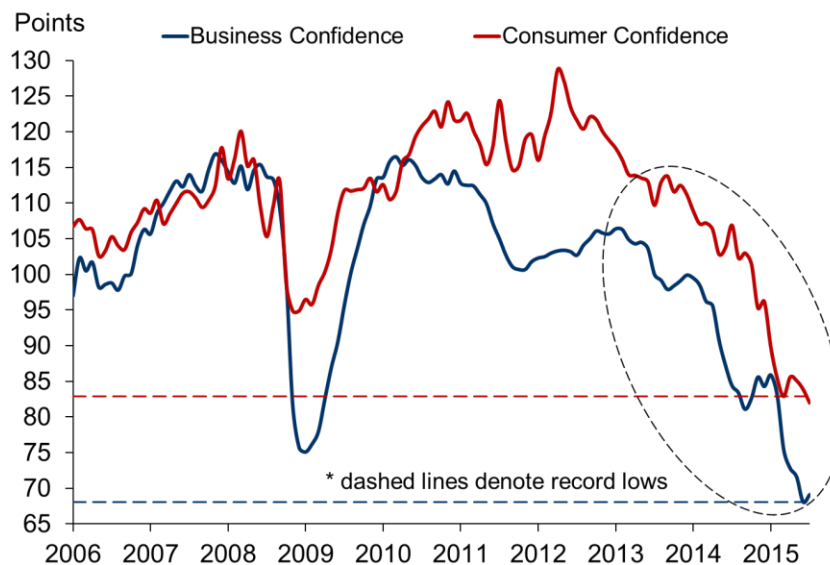
# Brazil -- Deteriorating outlook

## Brazil: Economic activity index



Source: Central Bank of Brazil\Haver Analytics

## Brazil: Business and consumer confidence\*

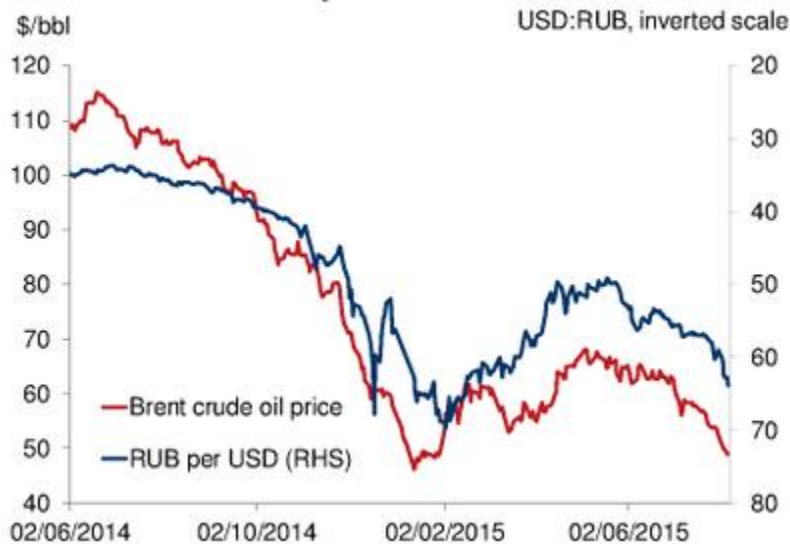


Source: FGV

- Economic activity index (IBC-Br) contracted by 0.6% m/m in June – technical recession. But this is the least of Brazil's worries...
- Wherever we look, there's an ugly story to be told: stubbornly high inflation, eroding consumers' purchasing power, tightened credit markets; increasing households' indebtedness and the deterioration in the labor market (>8% unemp)...
- Add to that political corruption scandal. Growth outlook -2.4% in 2015 and -0.3% 2016.

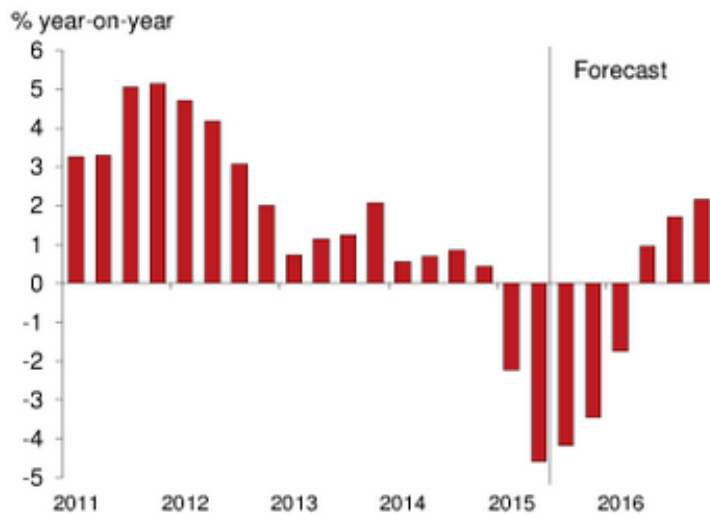
# Russia -- Trouble in the ruble

**Russia: RUB vs oil price**



Source : Oxford Economics/Haver Analytics

**Russia: Real GDP growth**



Source: Oxford Economics

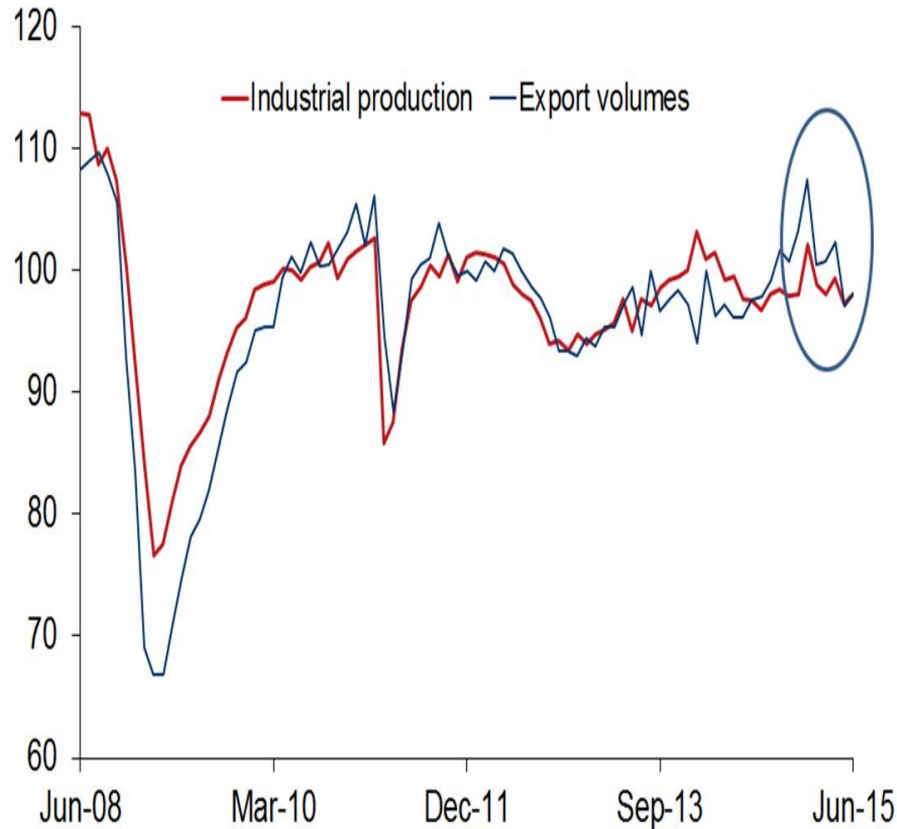
- Recession deepened in Q2 – GDP falling 4.6% y/y. Sharp retrenchment in consumer spending.
- Outlook has worsened: ruble under renewed pressure with oil prices slump
- Less monetary policy space (especially in the context of Fed liftoff)
- Triple hit from sanctions, ruble and oil

# **Japan: One more contraction but no recession**

# Japan: GDP fell in Q2 as consumers retrenched

## Japan: industrial production and exports

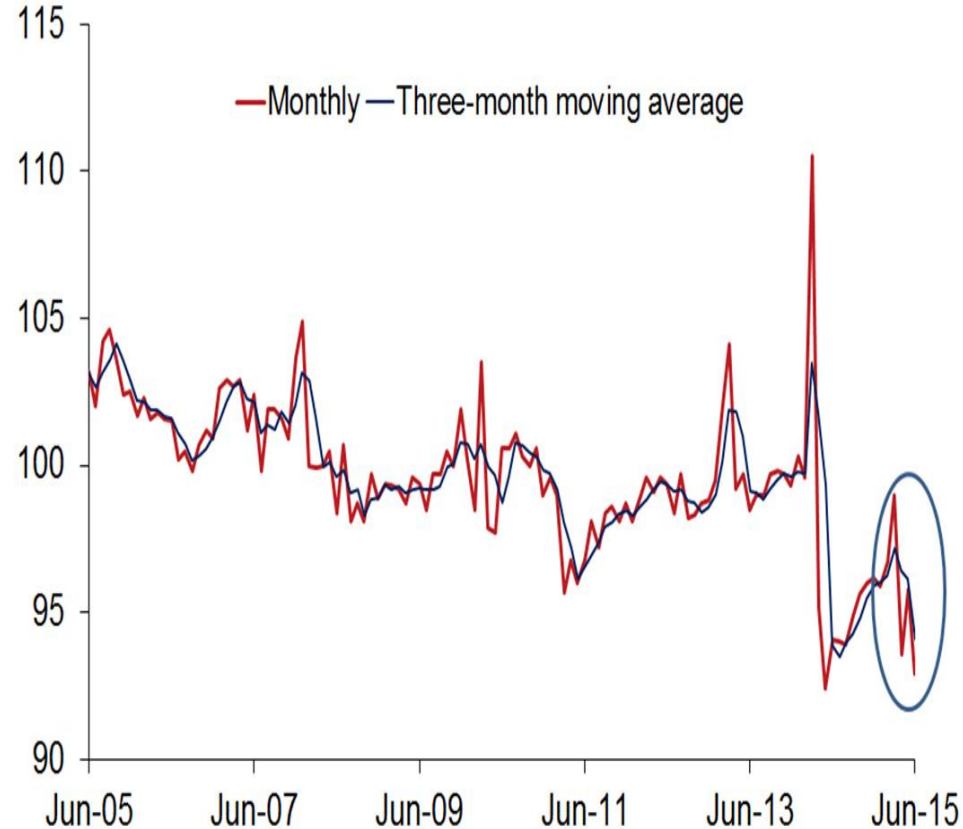
2010 = 100



Source : Oxford Economics/Haver Analytics

## Japan: household spending

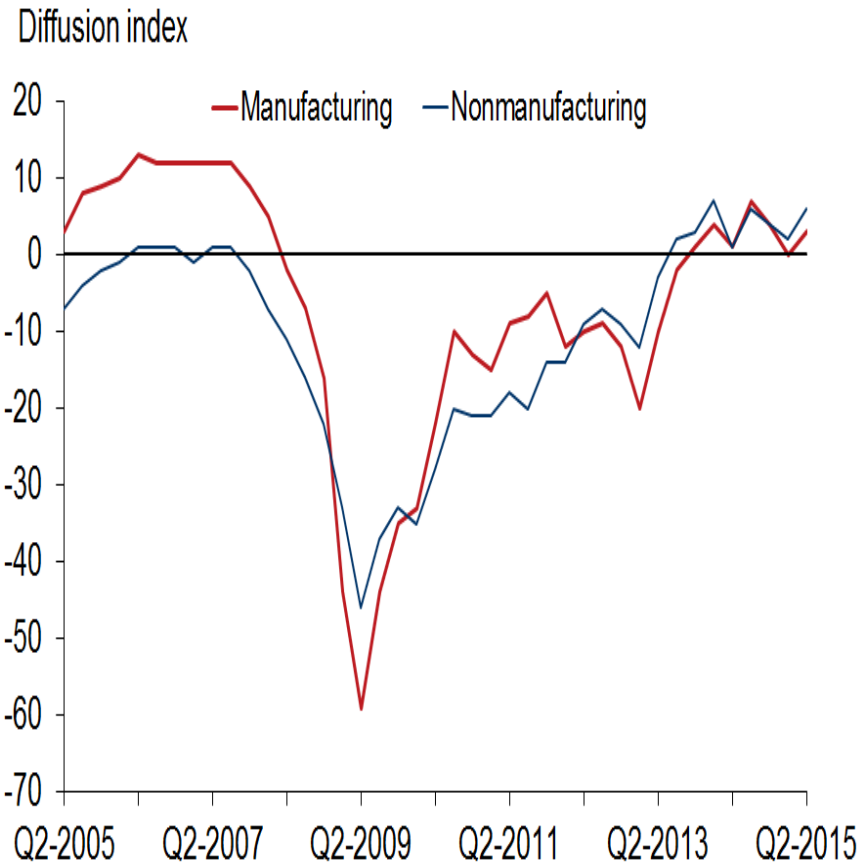
Monthly, real, 2000 = 100



Source : Oxford Economics/Haver Analytics

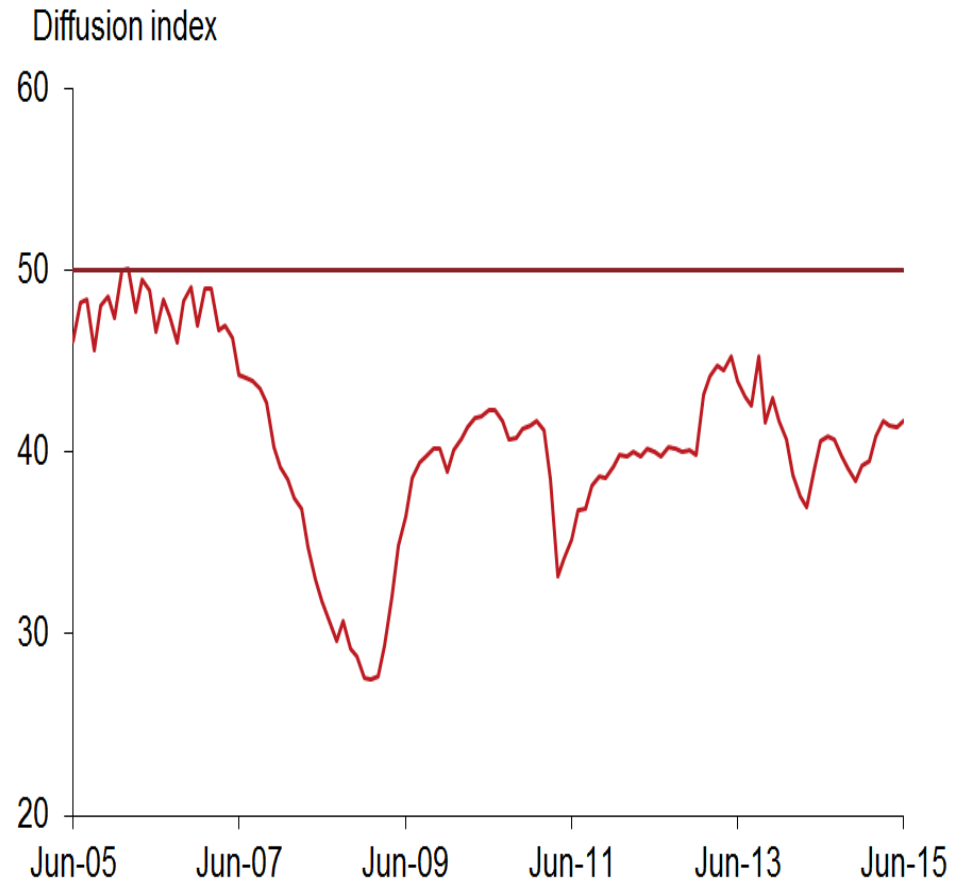
# Confidence holding up...

## Tankan confidence measures



Source : Oxford Economics/Haver Analytics

## Japan: consumer confidence



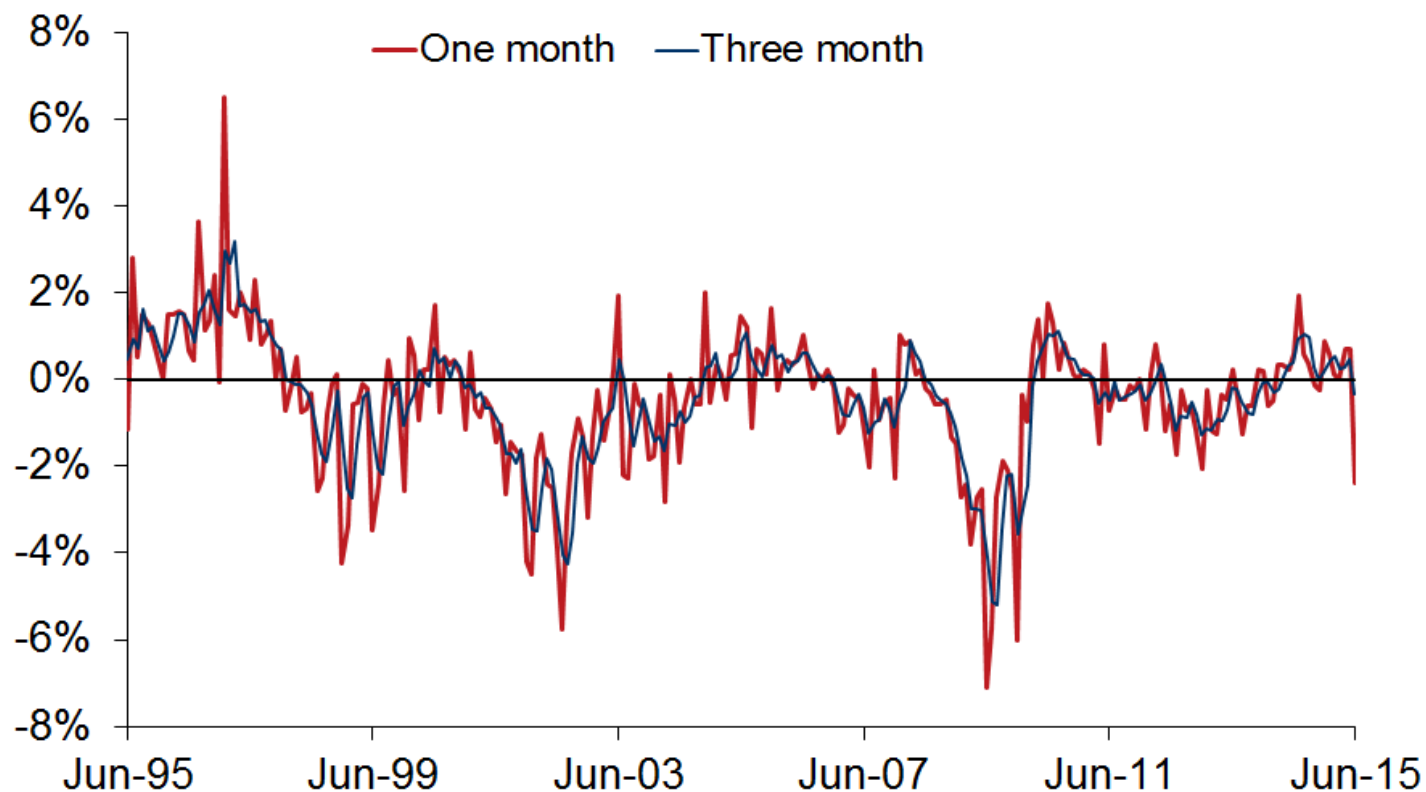
Source : Oxford Economics/Haver Analytics



# But earnings are not responding

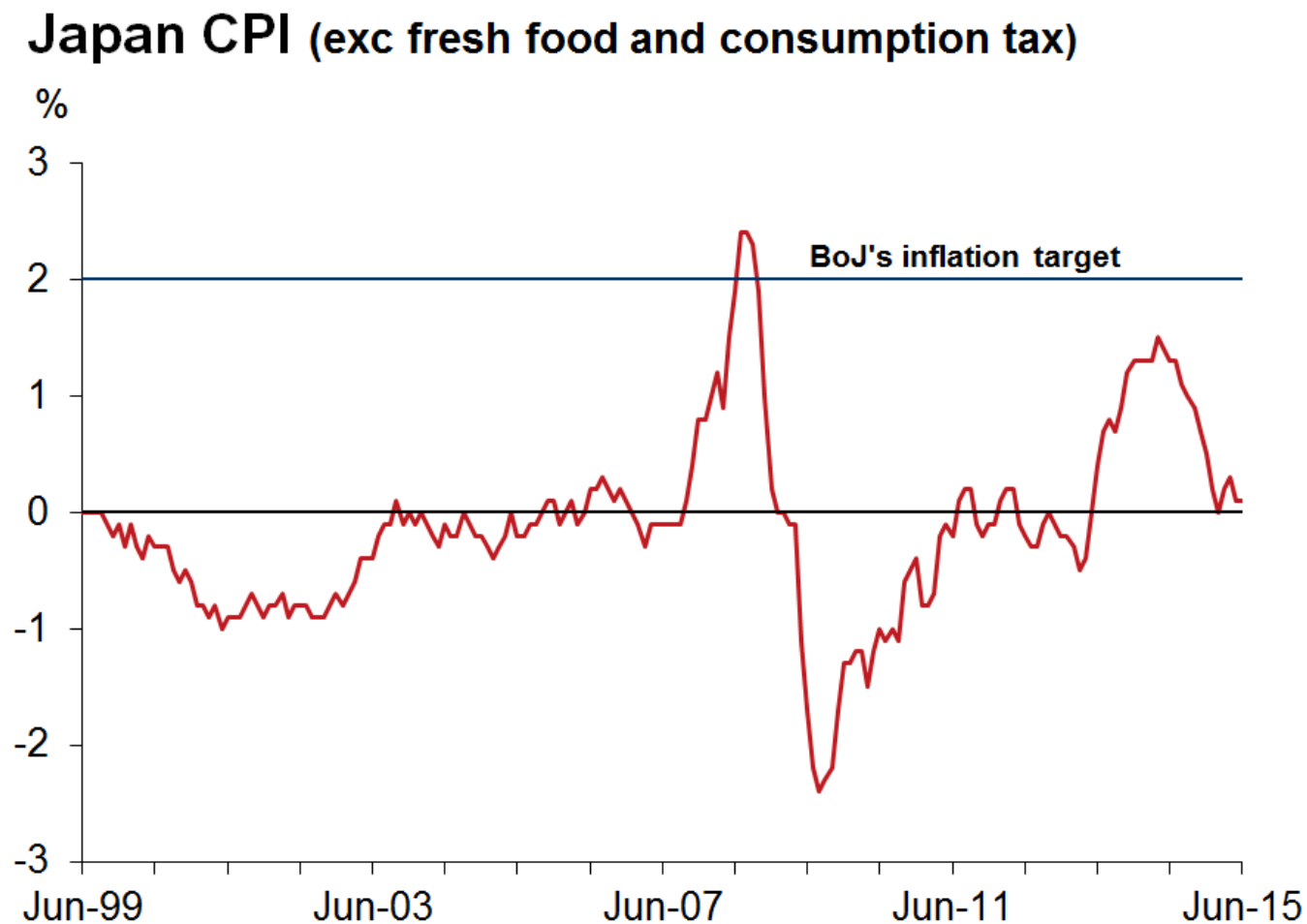
## Japan labour cash earnings

nominal change on same period a year ago 5 or more employees



Source : Oxford Economics/Haver Analytics

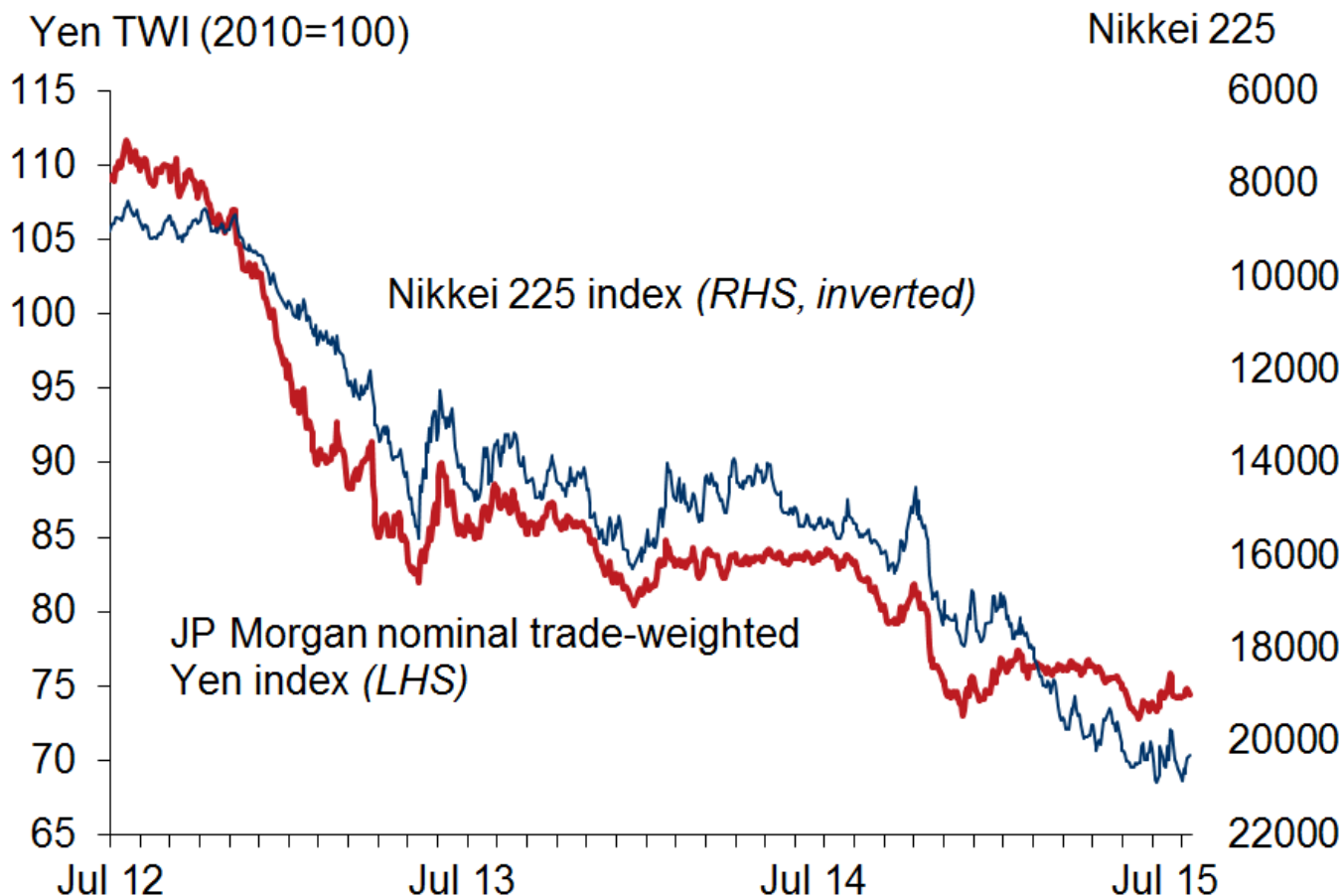
# Inflation to stay close to zero



Source : Statistics Japan/Haver Analytics

# BoJ stimulating through QE: Yen and Stock prices

## Exchange rate and stock market

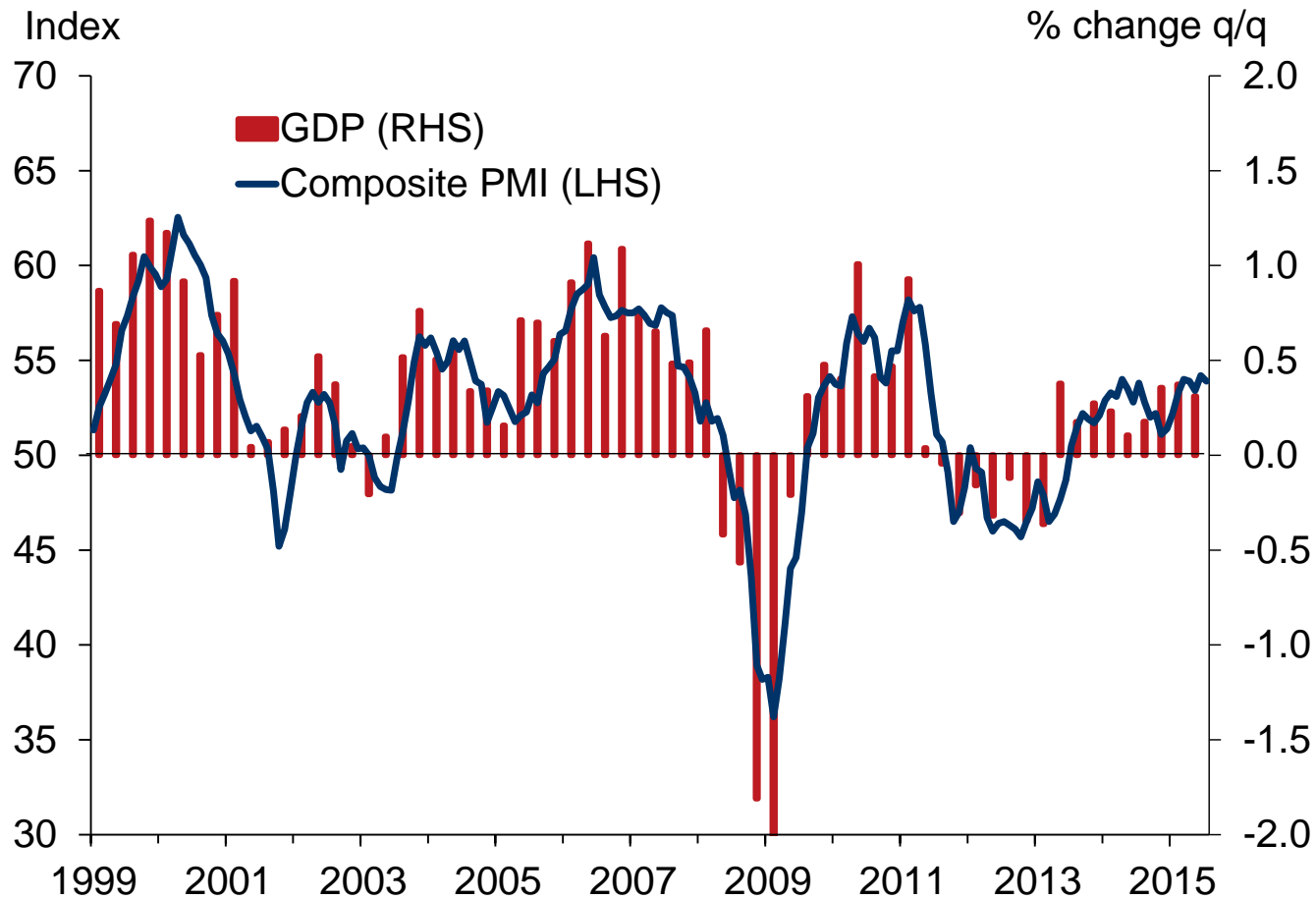


Source: Haver Analytics

# **Eurozone: From oil induced sugar rush to investment driven recovery?**

# Growth slowed in Q2, but...

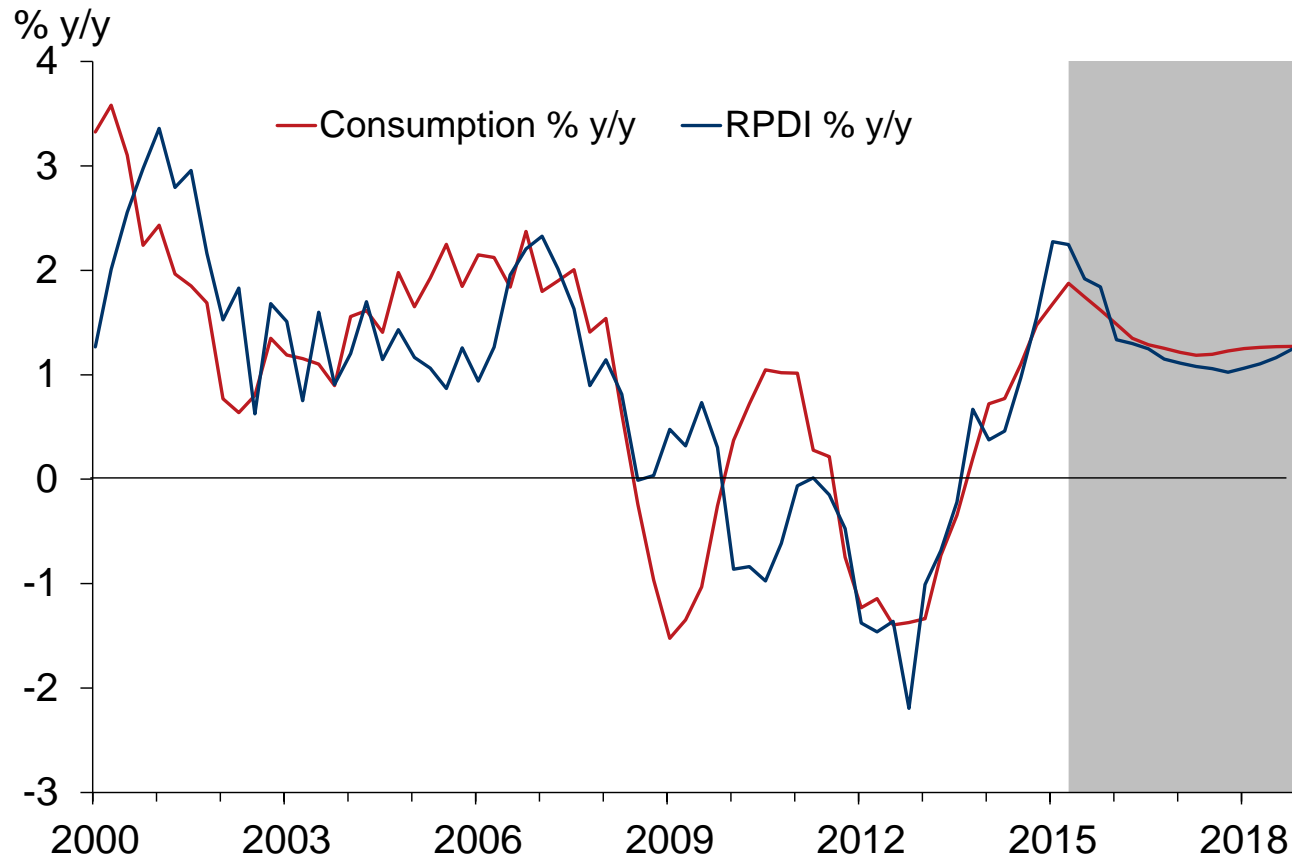
## Eurozone Composite PMI & GDP



Source : Oxford Economics/Haver Analytics/Markit

# ...consumption supportive boosted by real income

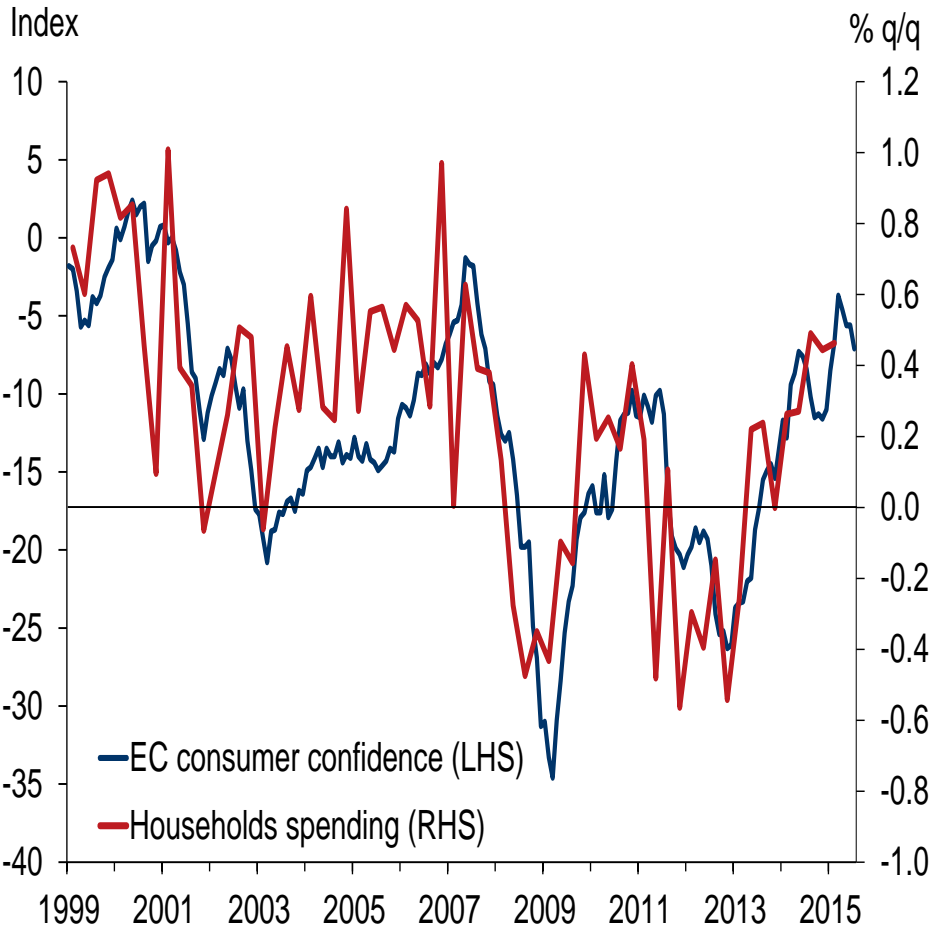
## Eurozone: consumption and real income



Source : Oxford Economics/Haver Analytics

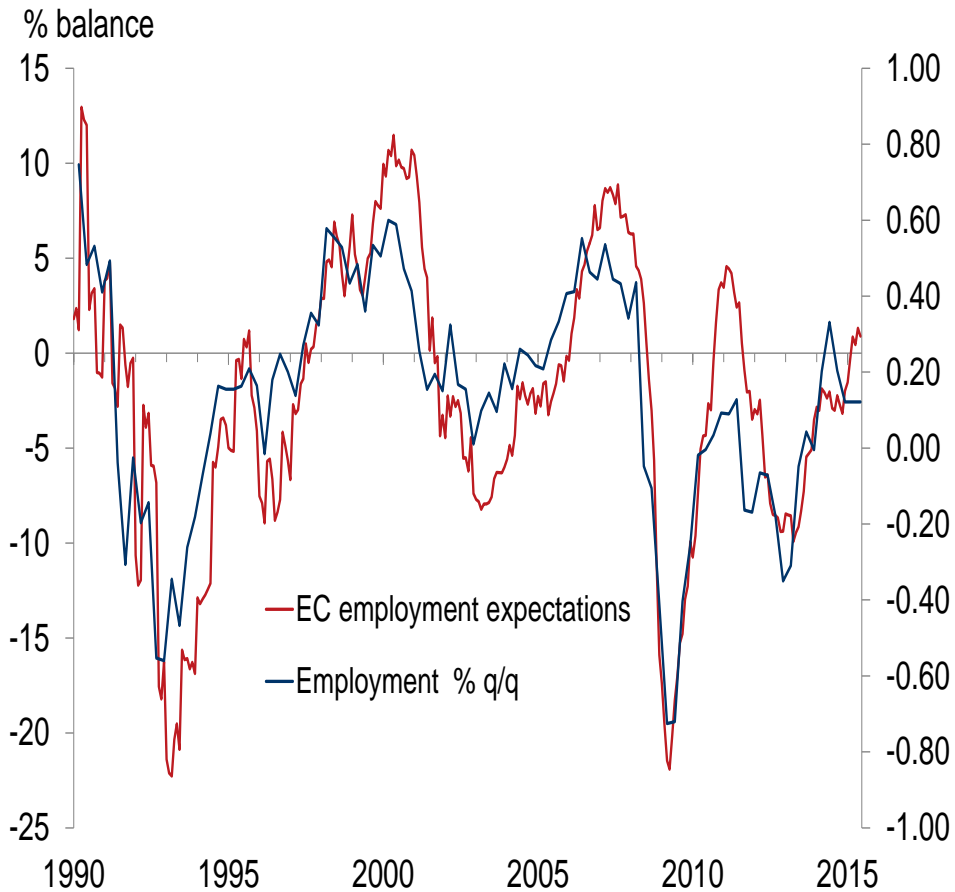
# A “sugar rush”, but not only that...

## Eurozone: Consumer spending & confidence



Source : Oxford Economics/Haver Analytics/Markit

## Euro area employment expectations

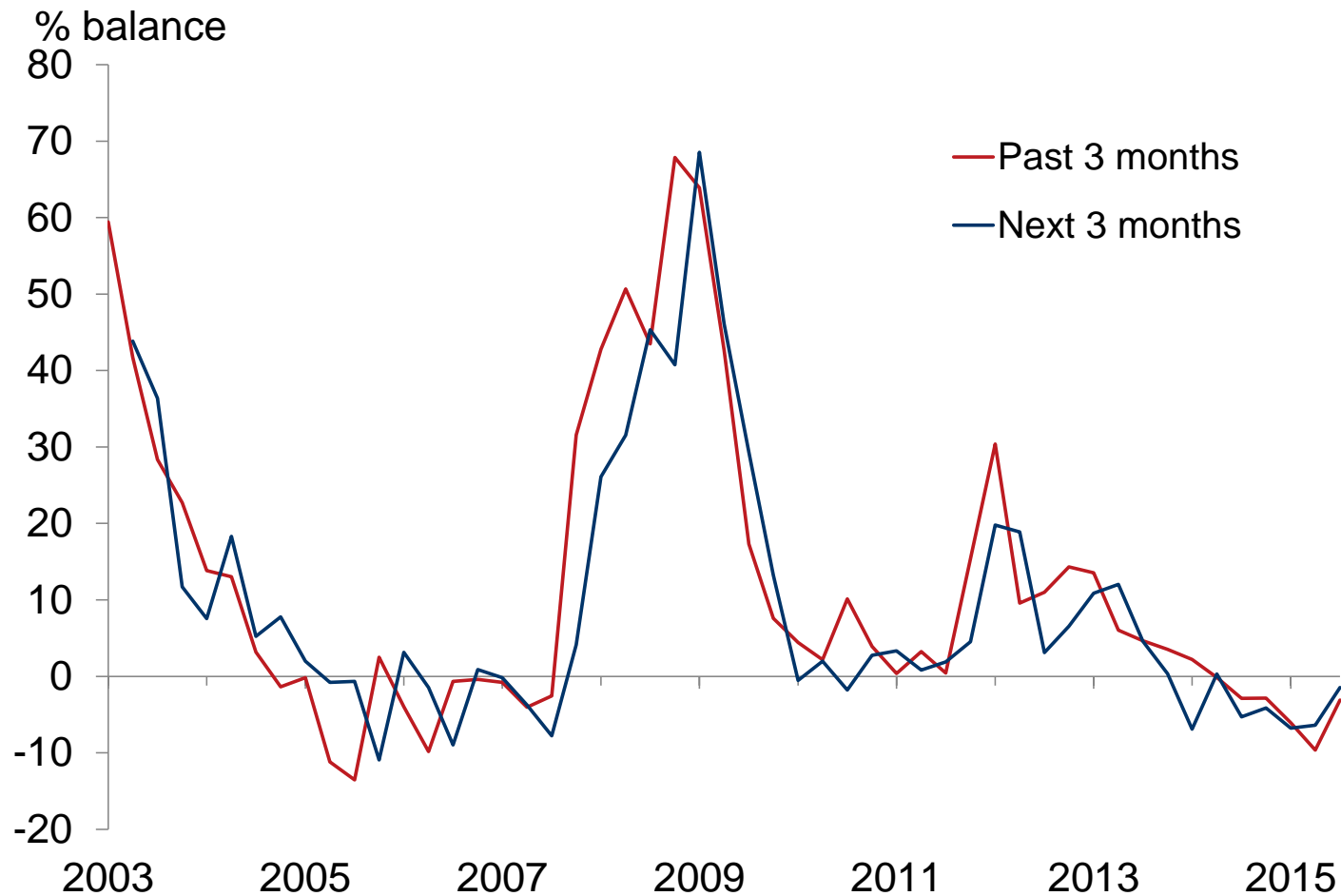


Source : Oxford Economics/Haver Analytics



# Will investment pick up the growth baton?

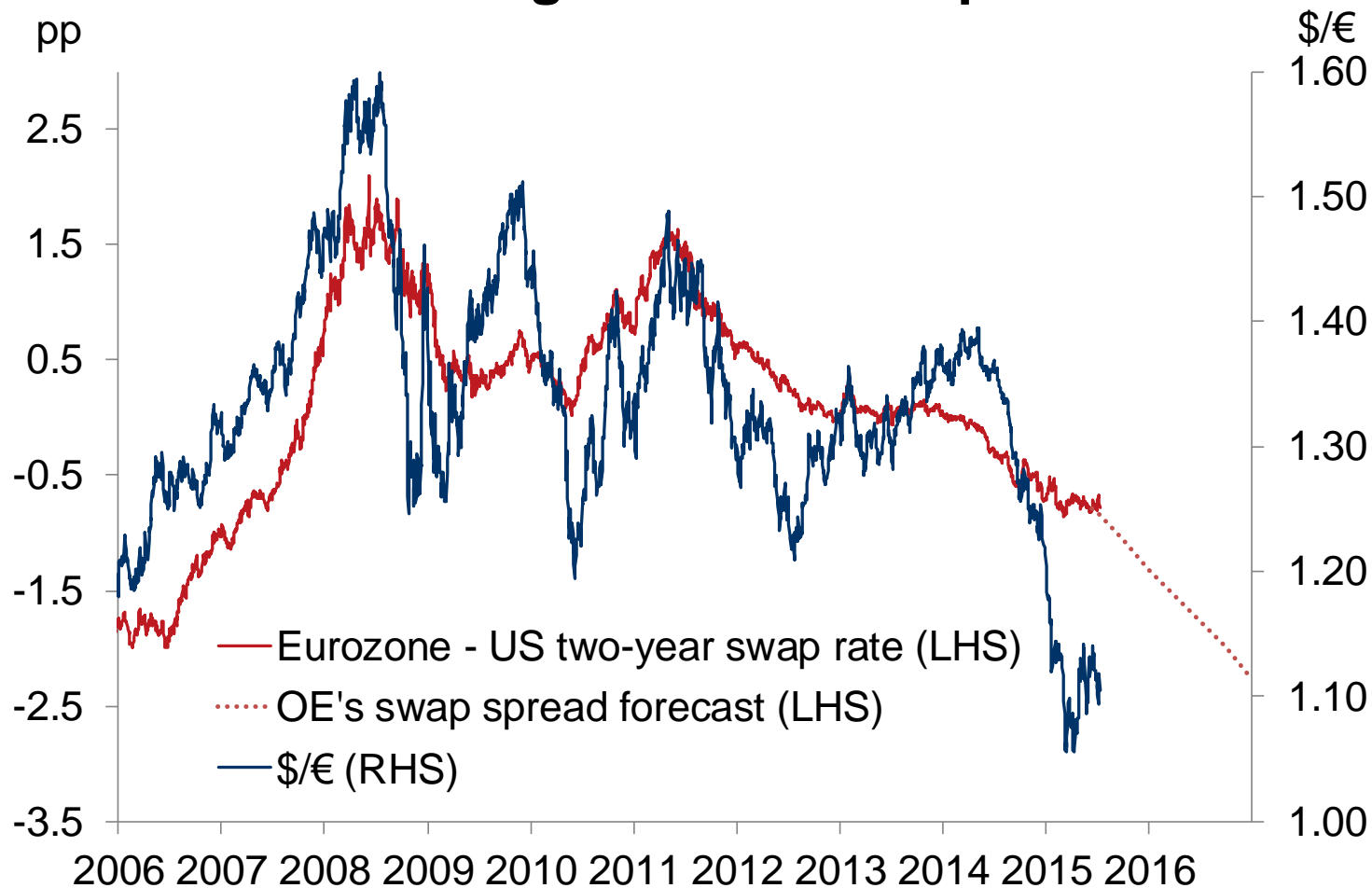
## Euro area: Bank credit standards to business



Source: Oxford Economics/Haver Analytics

# EZ QE to maintain euro weakness

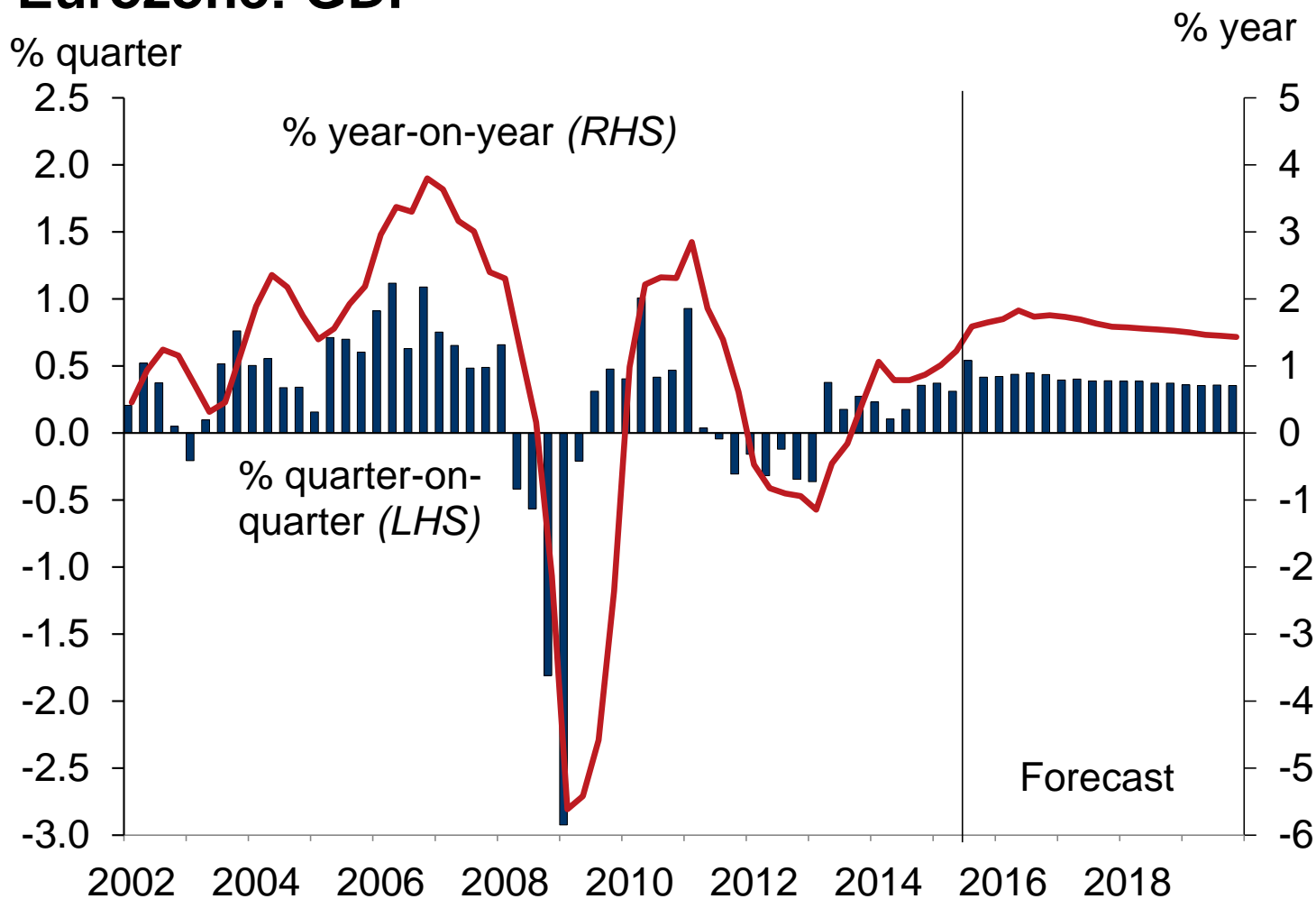
## Eurozone: Exchange rate and swap rates



Source : Oxford Economics/Haver Analytics

# Recovery to broaden and gain a bit of steam

## Eurozone: GDP



Source: Oxford Economics

# Conclusion

# Conclusions

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- World economy remains stuck in second gear...
- As emergers sing: *“when it hasn’t been your day, your month of even your year...”*
- But emerging markets complex is complex – one size doesn’t fit all
- Eurozone activity heading in right momentum... but the question will be whether it can move from “sugar rush” mode to “investment led”
- Greece remains a risk to EZ, but exposure much reduced and can has been punted
- Japan is still struggling with structural issues and downside risks remain
- US remains global growth locomotive but could the weight of the wagons prove too heavy?

# World economy: summary of GDP forecasts

World GDP Growth % Change on Previous Year						
	2014	2015	2016	2017	2018	2019
US	2.4	2.3	2.8	2.8	2.7	2.7
Japan	-0.1	0.8	1.8	1.0	0.6	0.8
Eurozone	0.9	1.5	1.8	1.7	1.5	1.5
of which:						
Germany	1.6	1.6	2.2	1.7	1.3	1.0
France	0.2	1.3	1.7	1.6	1.5	1.6
Italy	-0.4	0.6	1.0	1.1	1.0	1.0
UK	3.0	2.6	2.8	2.5	2.3	2.3
China	7.4	6.6	5.9	5.7	5.5	5.3
India	7.1	7.5	7.5	7.0	6.8	6.7
Other Asia	3.4	3.1	3.9	4.1	4.1	3.8
Mexico	2.1	2.5	3.1	3.3	3.5	3.4
Brazil	0.1	-2.4	-0.3	1.1	1.7	2.2
Other Latin America	1.6	1.3	2.2	3.6	3.7	3.9
Eastern Europe	1.3	-0.4	2.2	3.2	3.4	3.3
MENA	3.7	3.4	4.0	4.3	4.5	4.5
<b>World</b>	<b>2.7</b>	<b>2.5</b>	<b>2.9</b>	<b>3.1</b>	<b>3.1</b>	<b>3.1</b>



# Thank you!

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