Global Economic Outlook

High seas and strong winds

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August 2015
Global growth moving sideways...

World: Citigroup economic surprise indices
% balance of positive/negative surprises in economic data releases

US: Stock market performance
Jan 2013=100

Source: Oxford Economics/Haver Analytics

OXFORD ECONOMICS
Emerging markets struggling to regain luster

- 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

Source: Oxford Economics
...with commodities prices falling
BRICS, or
China and the spare RIBS
China: unmistakable signs…

China: Stock market and currency

CNY/US$

Index Dec 1990=100

Shanghai stocks (RHS)

CNY/US$ spot (LHS)

Source: Oxford Economics/Haver Analytics
China: Alternative indicator hints at sharp slowdown

China: GDP growth and alternative indicator

Alternative activity indicator is average of annual growth rates of electricity output, rail freight and real credit.

Source: Oxford Economics/Haver Analytics

China: Industrial output & exports

Source: Haver Analytics
Sharp downturn across all sectors...

China: Investment in fixed assets

% year

- Funded by public sector
- Total investment
- Real estate

Source: Oxford Economics/Haver Analytics
Declining growth prospects

China: Contributions to real GDP growth

- Net exports
- Private consumption
- Investment
- Public consumption
- Stockbuilding
- GDP (% year)

Source: Oxford Economics/Haver Analytics
India - a bright spot among the emergers

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

- 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

- 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

Japan: household spending
Monthly, real, 2000 =100

Source: Oxford Economics/Haver Analytics
Confidence holding up…

Tankan confidence measures

Diffusion index

- Manufacturing
- Nonmanufacturing

Japan: consumer confidence

Diffusion index

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

Japan CPI (exc fresh food and consumption tax)

Source: Statistics Japan/Haver Analytics
BoJ stimulating through QE: Yen and Stock prices

Exchange rate and stock market

Yen TWI (2010=100) vs. Nikkei 225

Nikkei 225 index (RHS, inverted)

JP Morgan nominal trade-weighted Yen index (LHS)

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

- EC consumer confidence (LHS)
- Households spending (RHS)

Source: Oxford Economics/Haver Analytics/Markit

Euro area employment expectations

- EC employment expectations
- Employment % q/q

Source: Oxford Economics/Haver Analytics
Will investment pick up the growth baton?

Euro area: Bank credit standards to business

% balance

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**

- % quarter-on-quarter (LHS)
- % year-on-year (RHS)

Forecast

Source: Oxford Economics
Conclusion
Conclusions

• 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 GDP Growth

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