# EUROPULP/UTIPULP ANNUAL SEMINAR

**(Barcelona, 17 September 2015)**

# The Global Economy
# A Mixed Picture

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# THE GLOBAL ECONOMY
# A MIXED PICTURE

We have come out of the (double-dip) recession

What is in store next ?

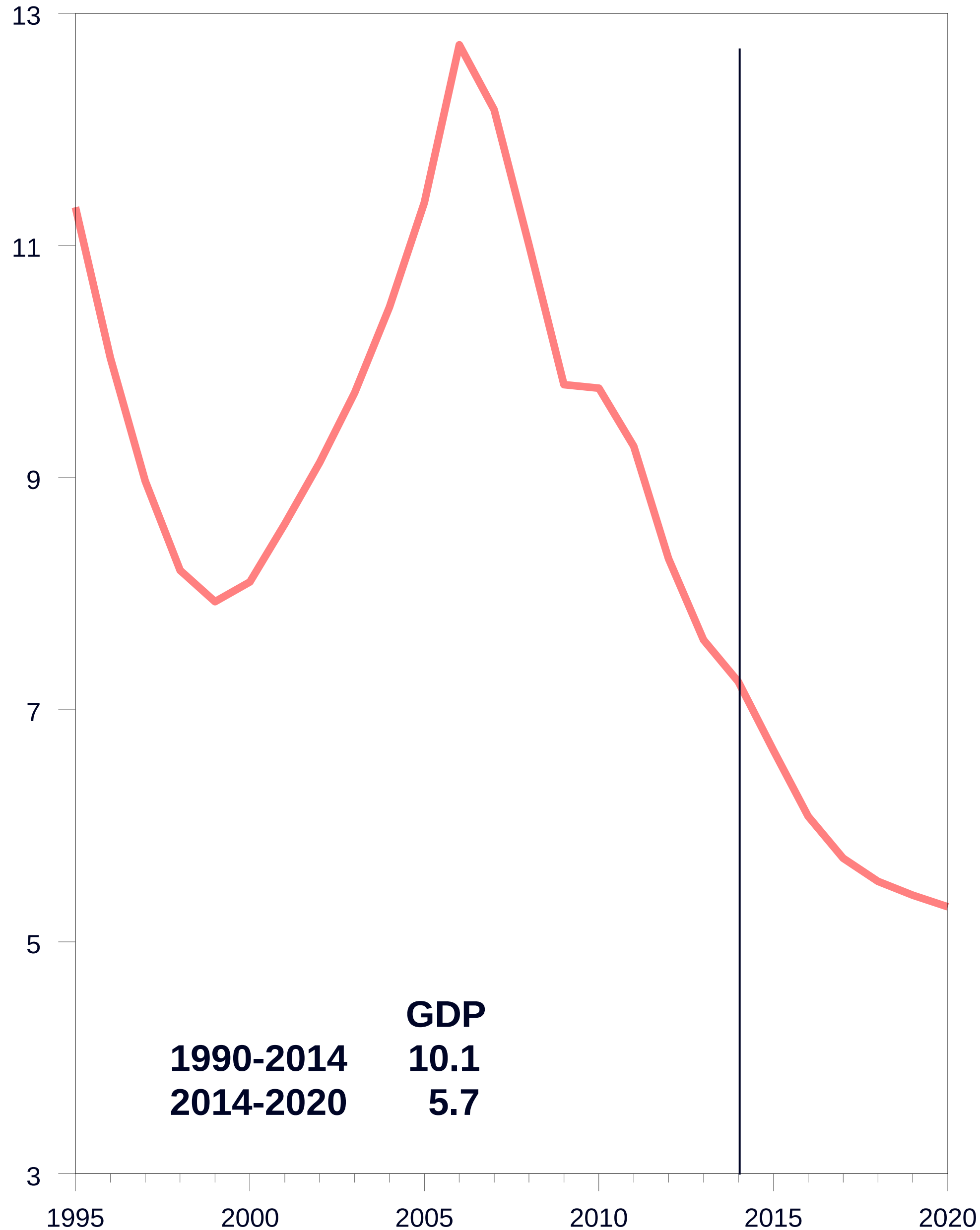
Decelerations in China and in many other emerging markets

Lethargy in the United States

Some recovery in Europe (even if still modest)

# CHINA - SLOWING DOWN ?

## (GDP; per cent changes; 3 yrs. mv. avrgs.)




**Source: Oxford Economics.**

# CHINA - WHY IS A SLOWDOWN INEVITABLE ?

No country can go on growing at 10 per cent per annum for ever

Investment has risen to excessive levels

Partly as a consequence there has ben far too much debt accumulation

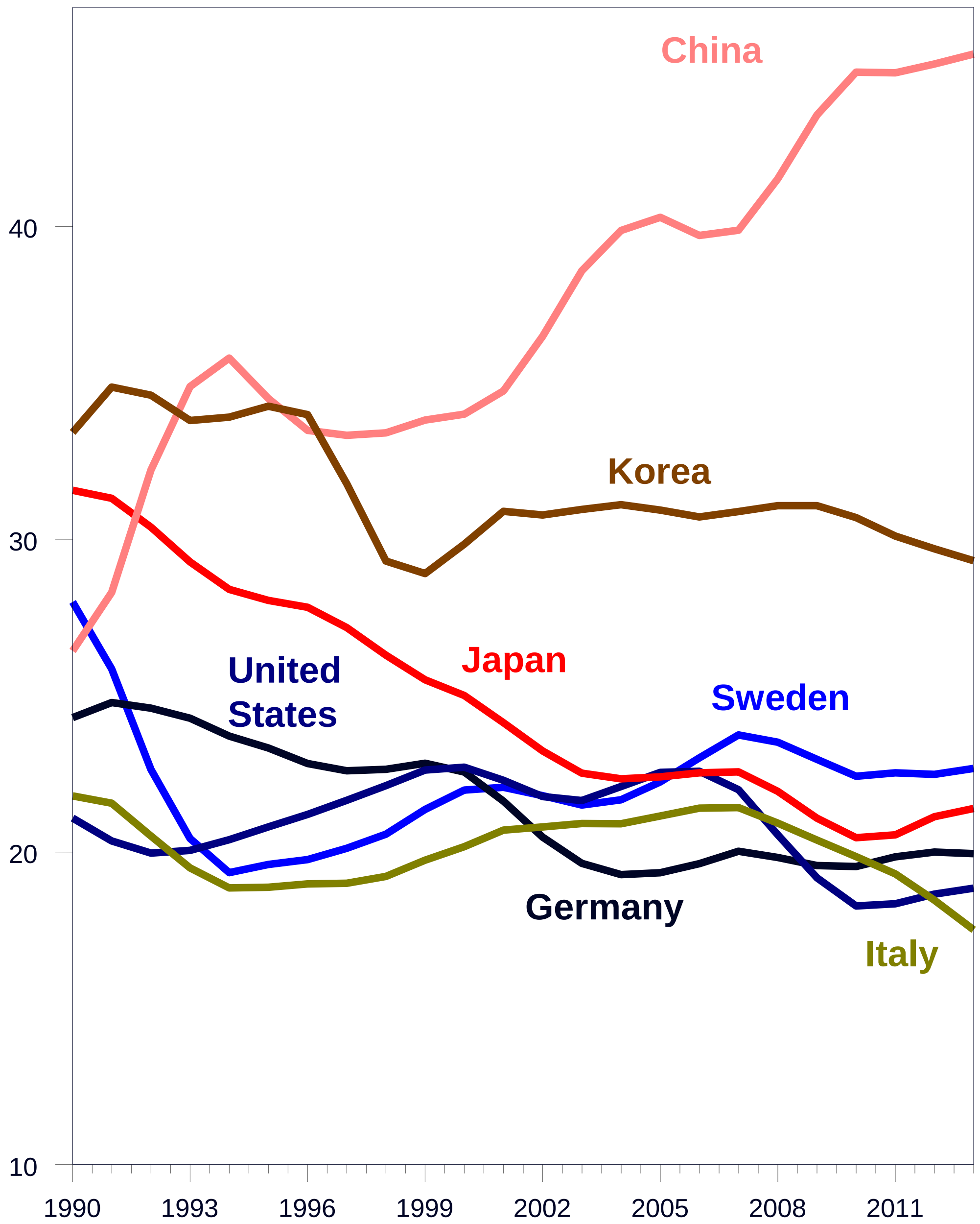
And bubbles have emerged for house and share prices

Exchange rate appreciation has squeezed industry

Demographic trends are unfavourable

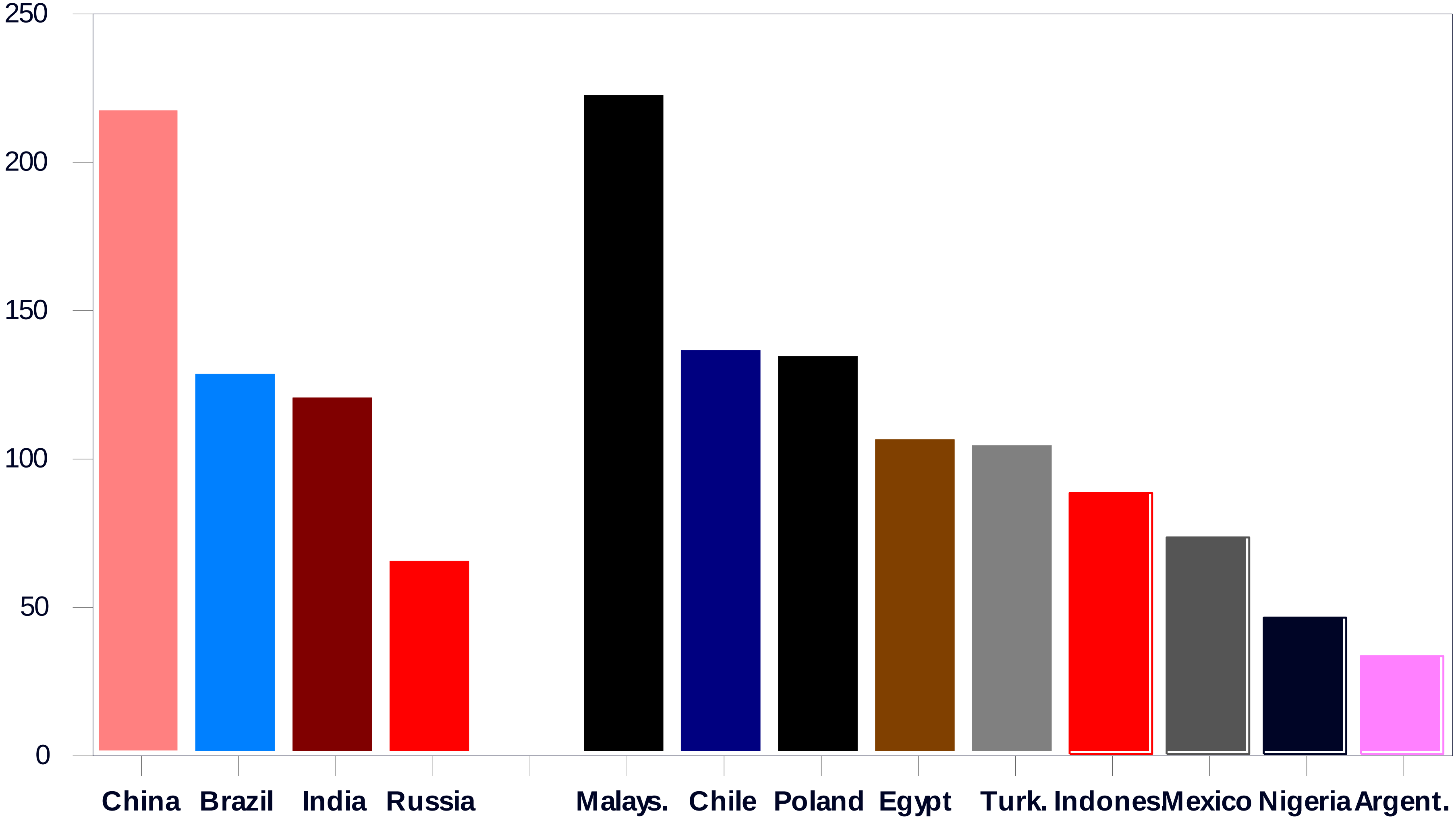
# GROSS FIXED INVESTMENT

## (in per cent of GDP; 3 years mov. avrgs.)



# TOTAL DEBT LEVELS*, 2014

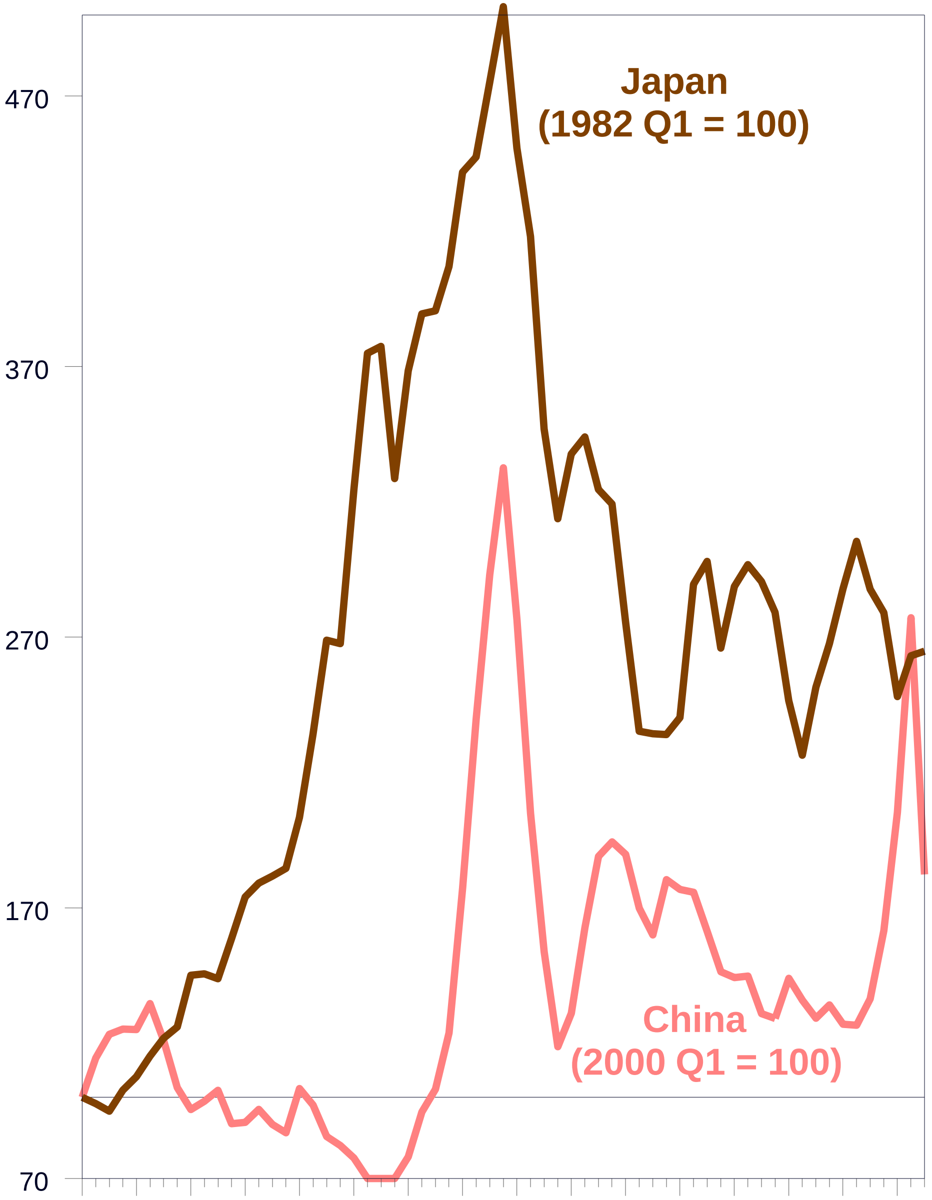
## (in per cent of GDP)



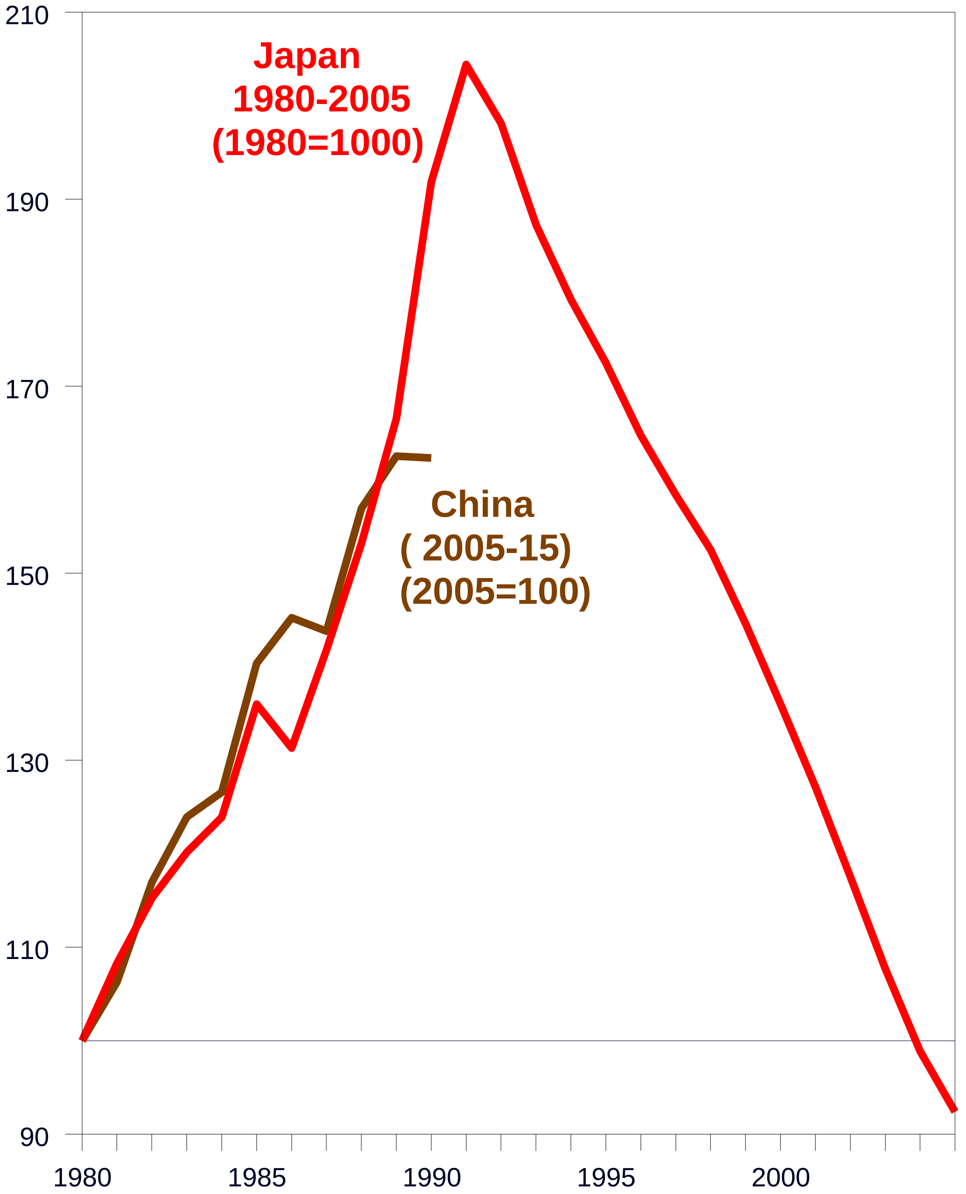

*Governments, Households and Non-financial Corporations.

Source: McKinsey Global Institute.

# JAPAN AND CHINA
# THE STOCK MARKET

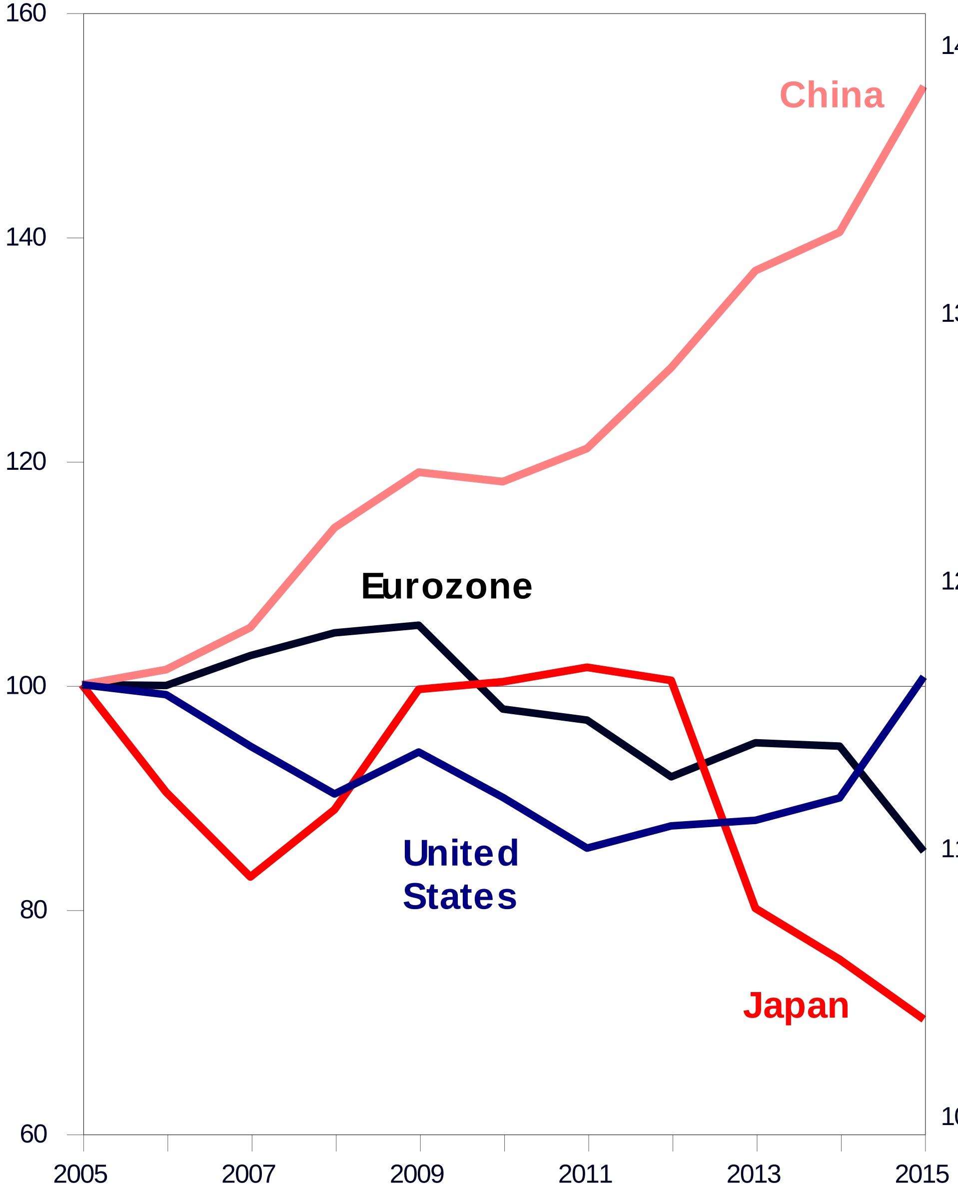



# JAPAN AND CHINA
# HOUSE PRICES



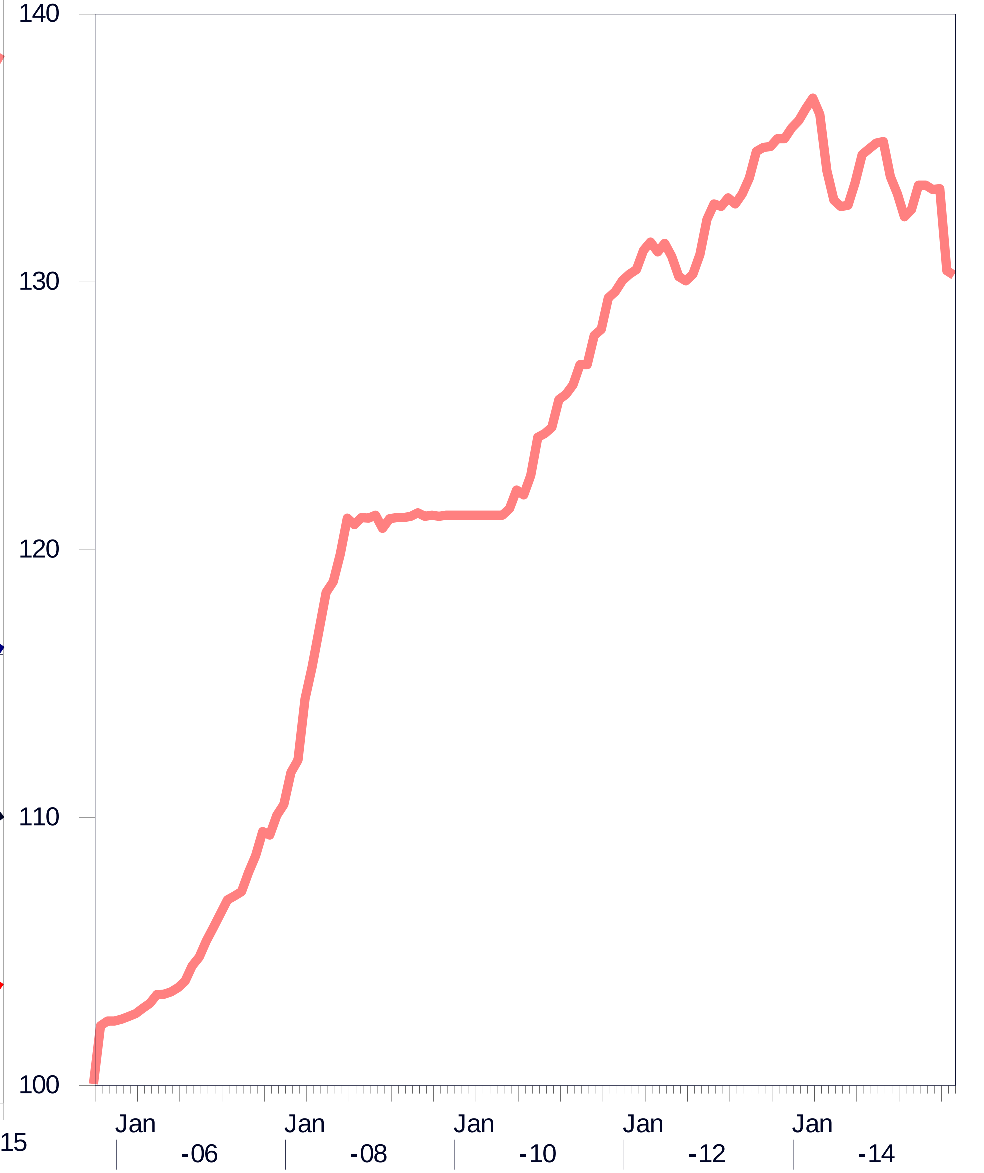
# REAL EXCHANGE RATES

**(2005 = 100)**



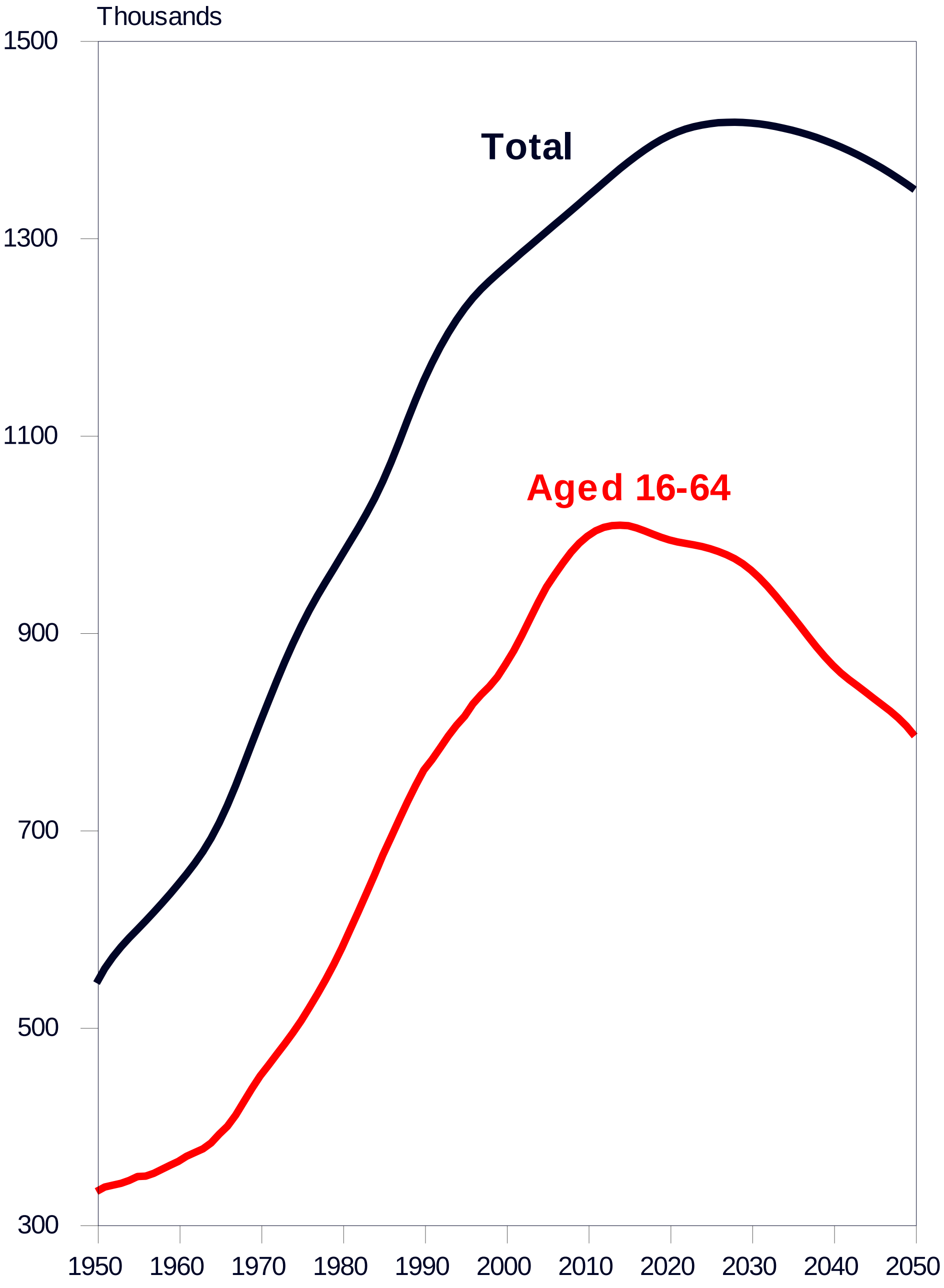

# YUAN-DOLLAR EXCHANGE RATE

**(1st July 2005 = 100)**



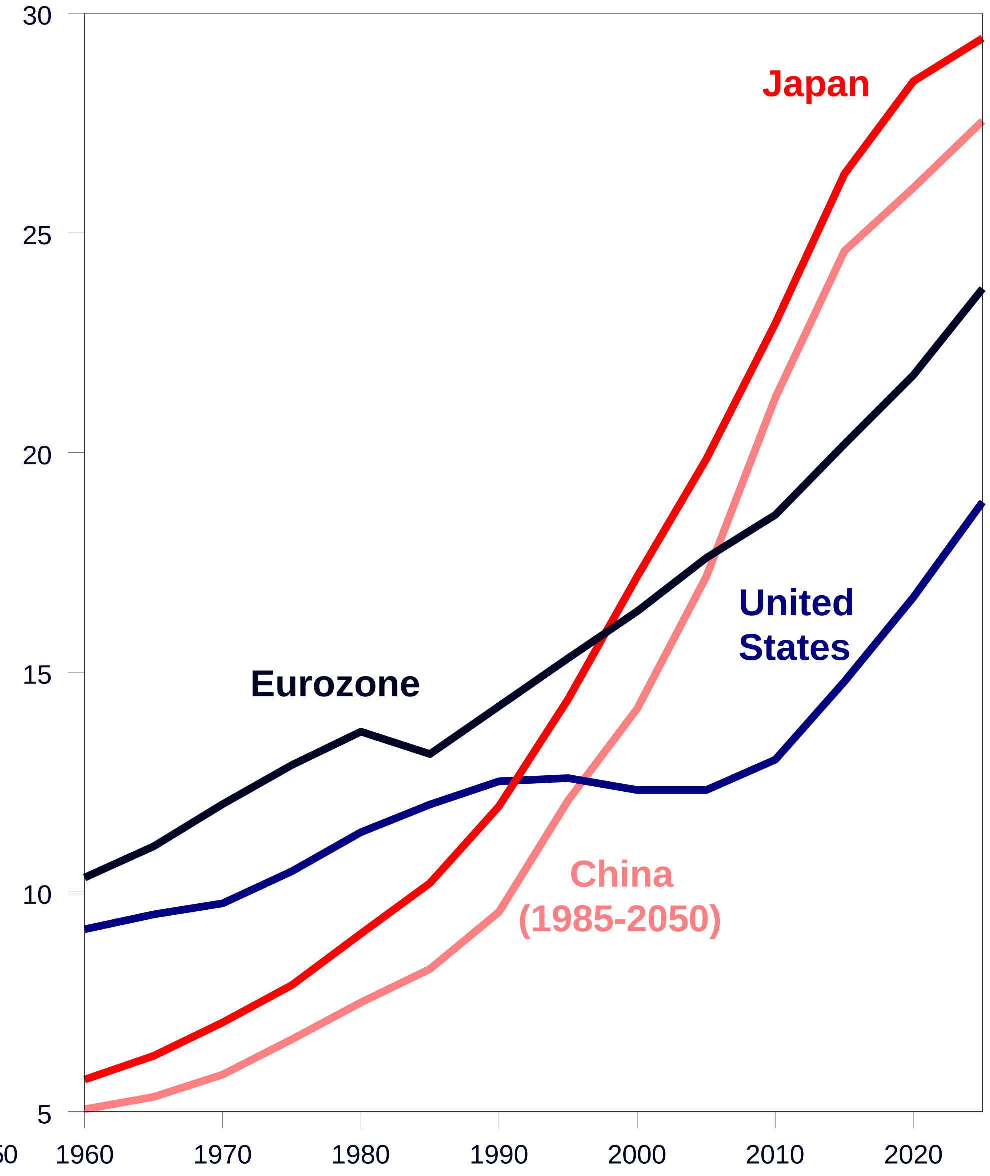

**Source: Oxford Economics.**

# CHINA - POPULATION



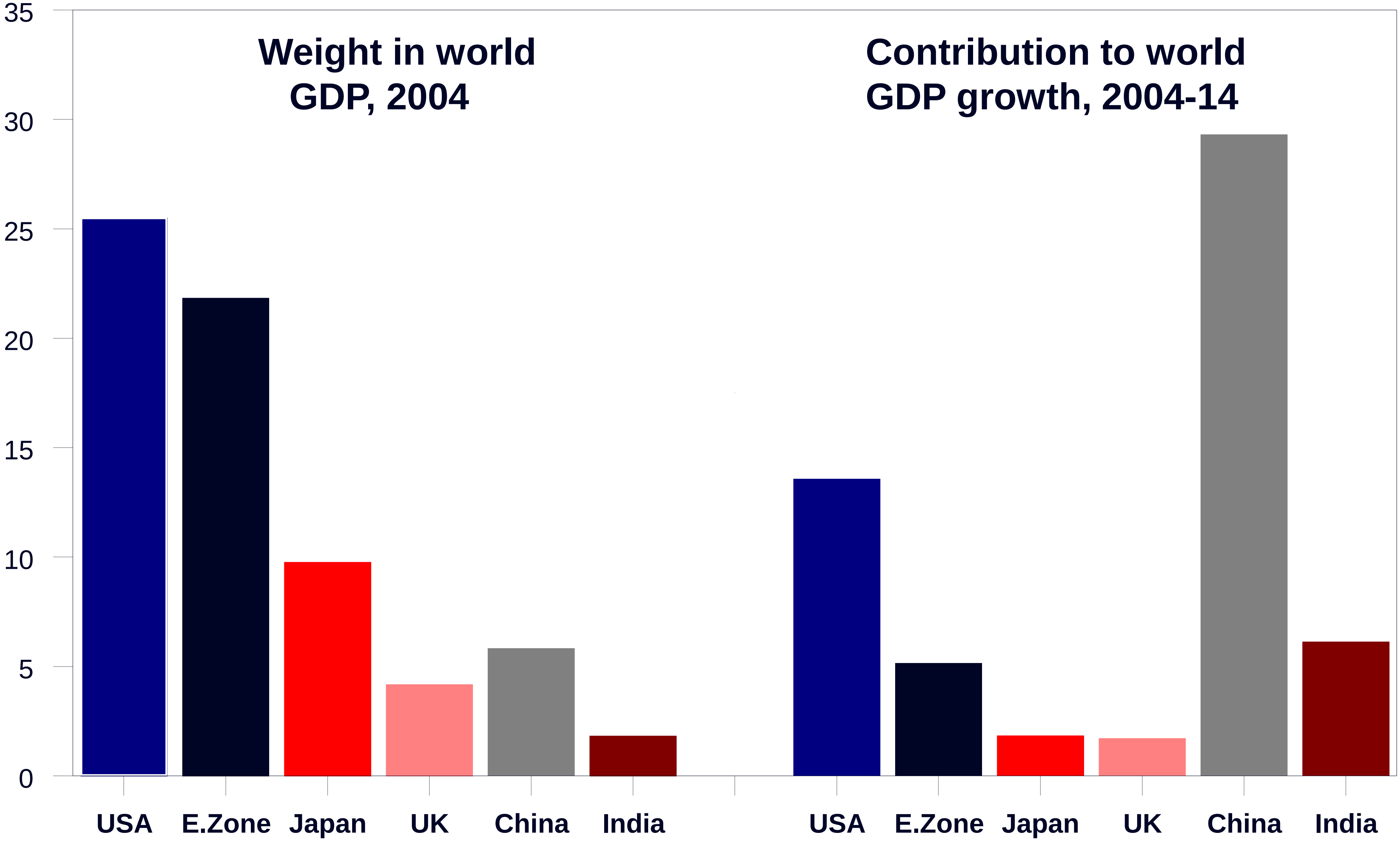

# THE AGEING POPULATION

## (share of people aged 65 and more in total population)




***Source*: UNPD**

# IMPORTANCE OF VARIOUS AREAS, 2004-14



# CHINA SLOWING DOWN

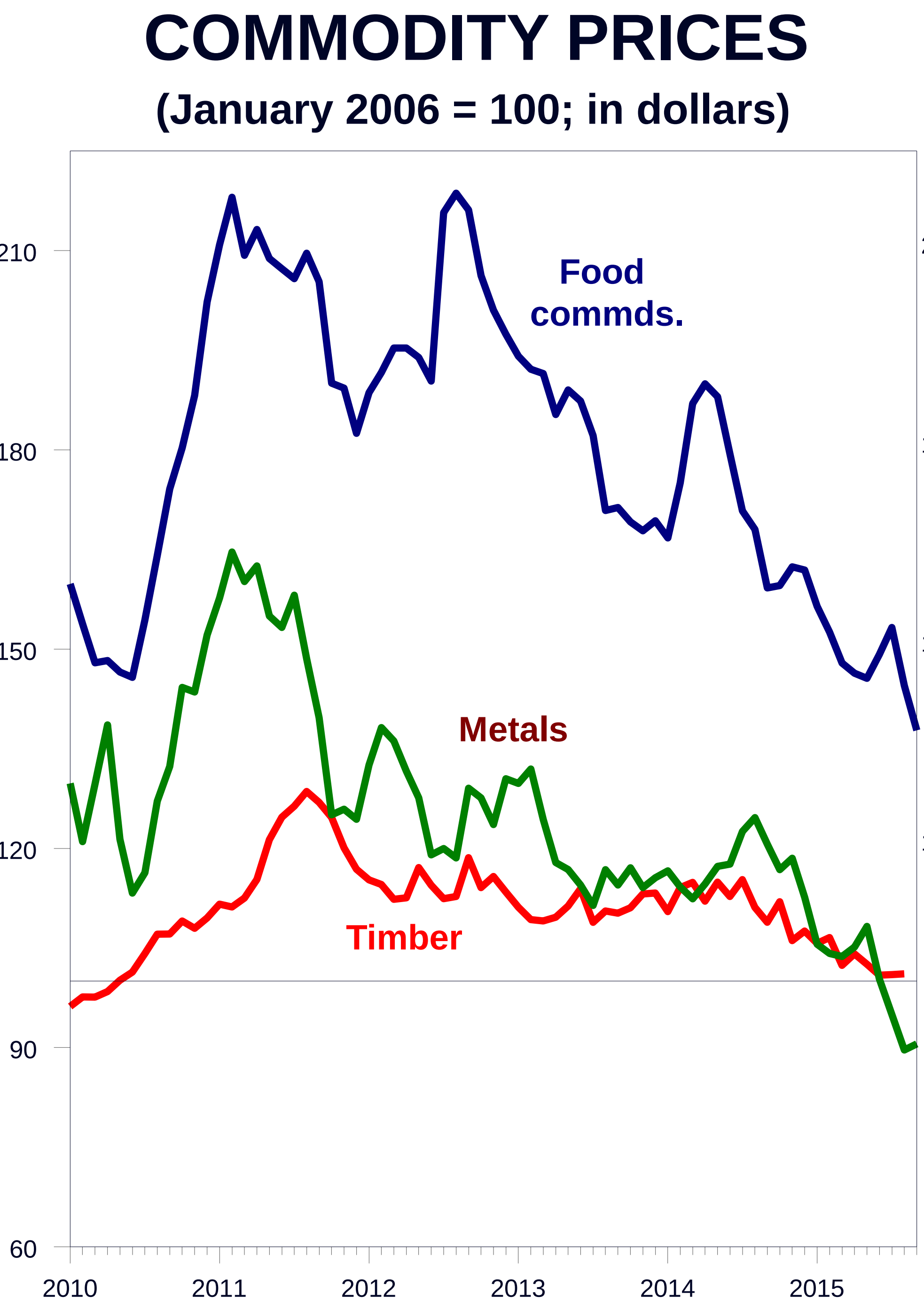
**Two major consequences:**

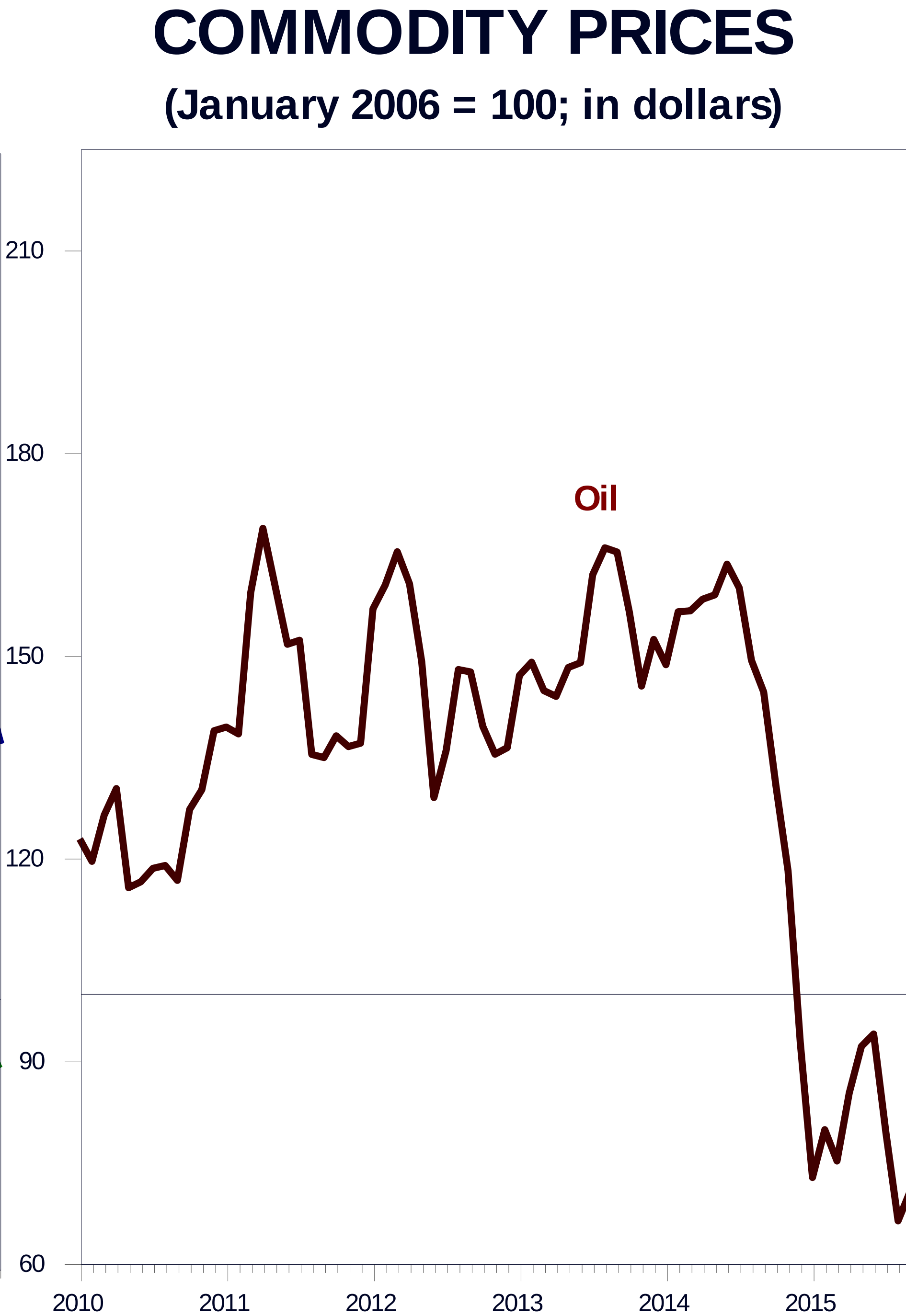
**i) The growth of European exports to China will be lower than it would otherwise have been**

**This will be particularly true for capital goods and will especially affect Germany (already hurt by a weak yen)**

**ii) Commodity prices will be lower than they would otherwise have been (with, probably, more pronounced effects for industrial raw materials than for agricultural commodities)**

**This is already negatively affecting a number of emerging markets (e.g. Brazil, Peru, South Africa, Indonesia etc.), but has positive effects in the advanced economies**

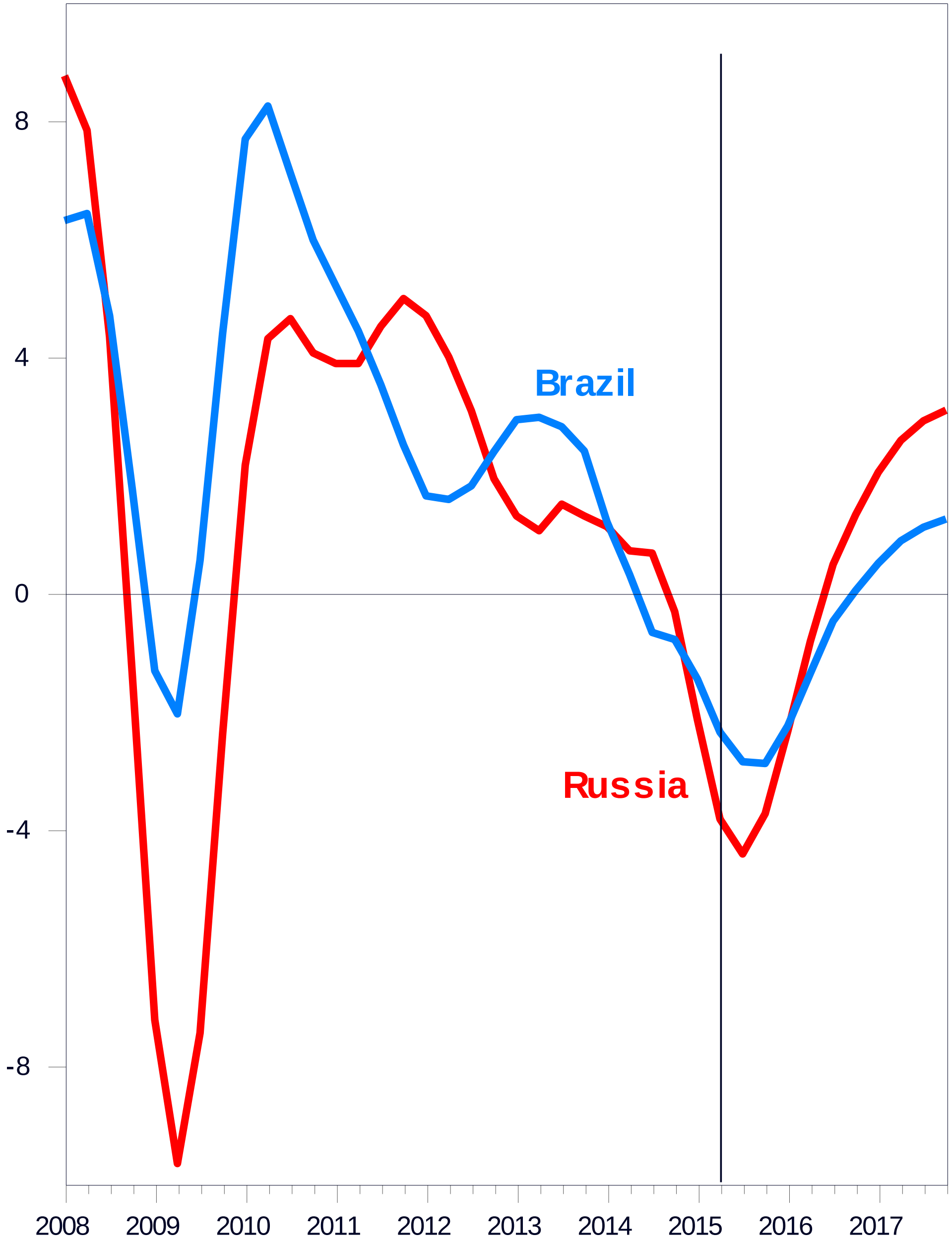



*Sources*: *The Economist;* IMF.

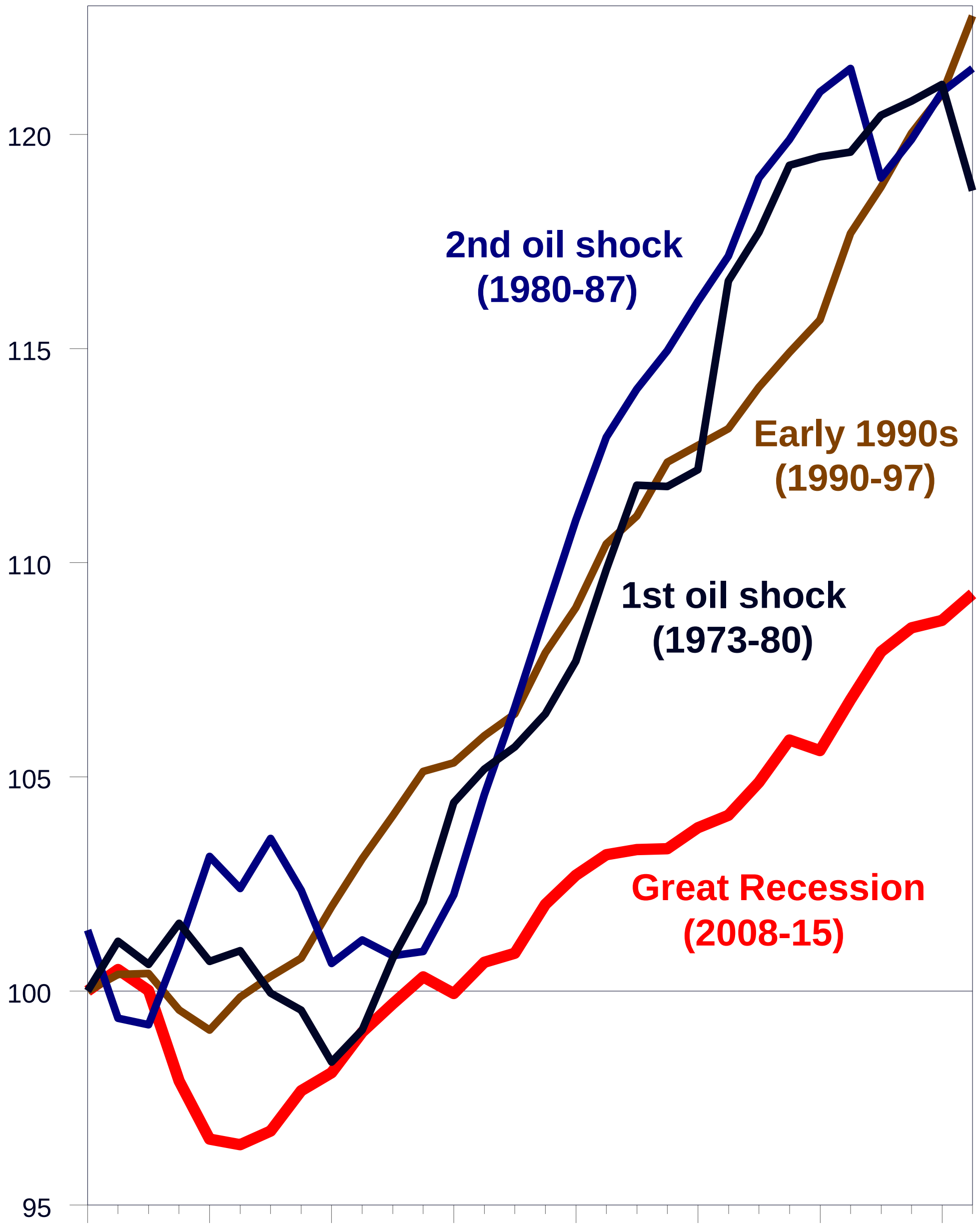
# RECESSION AND RECOVERY

## (GDP; per cent changes; 3 qtrs. mv. avrgs.)



# US RECESSIONS AND RECOVERIES

## (GDP; levels; pre-recession peak = 100)



# WHAT IS HAPPENING IN THE UNITED STATES ?

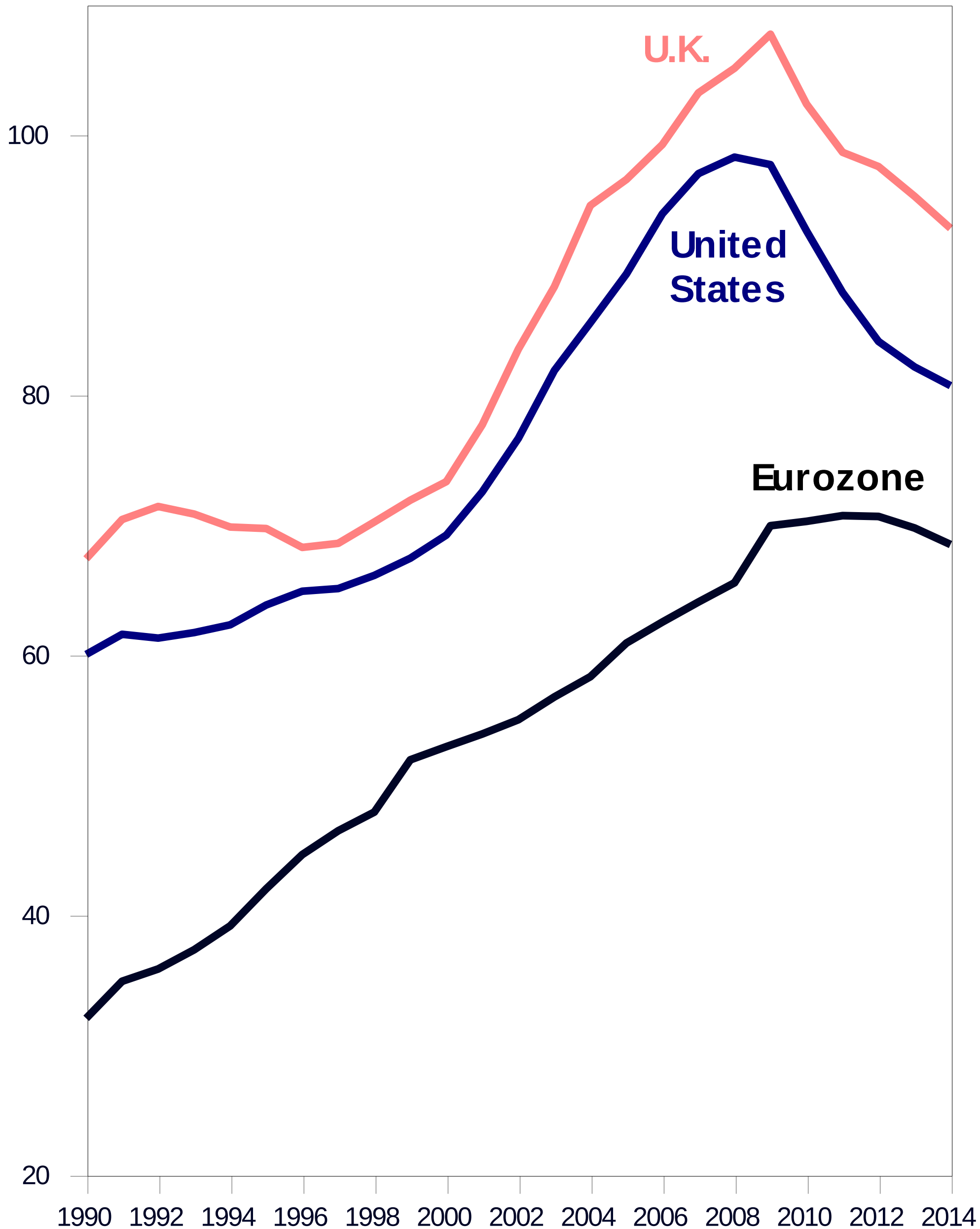
**A bit of a mistery !**

- **There was a very cold winter, but ...**
- **The dollar has risen, but ...**
- **Construction has remained weak (despite low interest rates)**
- **Wage growth has remained sluggish (despite low unemployment)**
- **Companies are reluctant to invest (despite high cash flow and profits)**

**Yet US fundamentals are very solid**

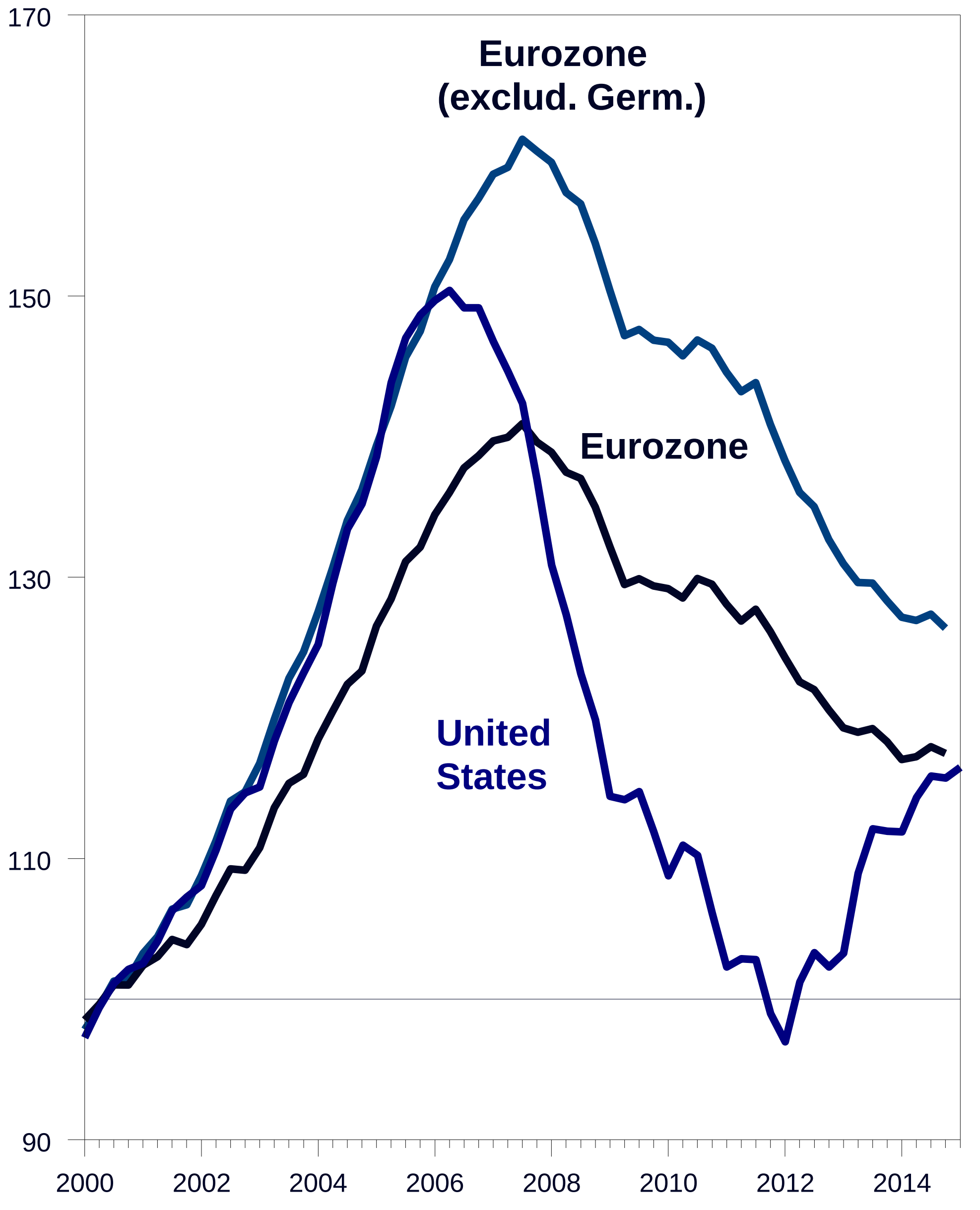
- **And growth should return to a 2½-3 per cent trend over the medium term**

# HOUSEHOLDS DEBT/GDP RATIOS



# HOUSE PRICES*

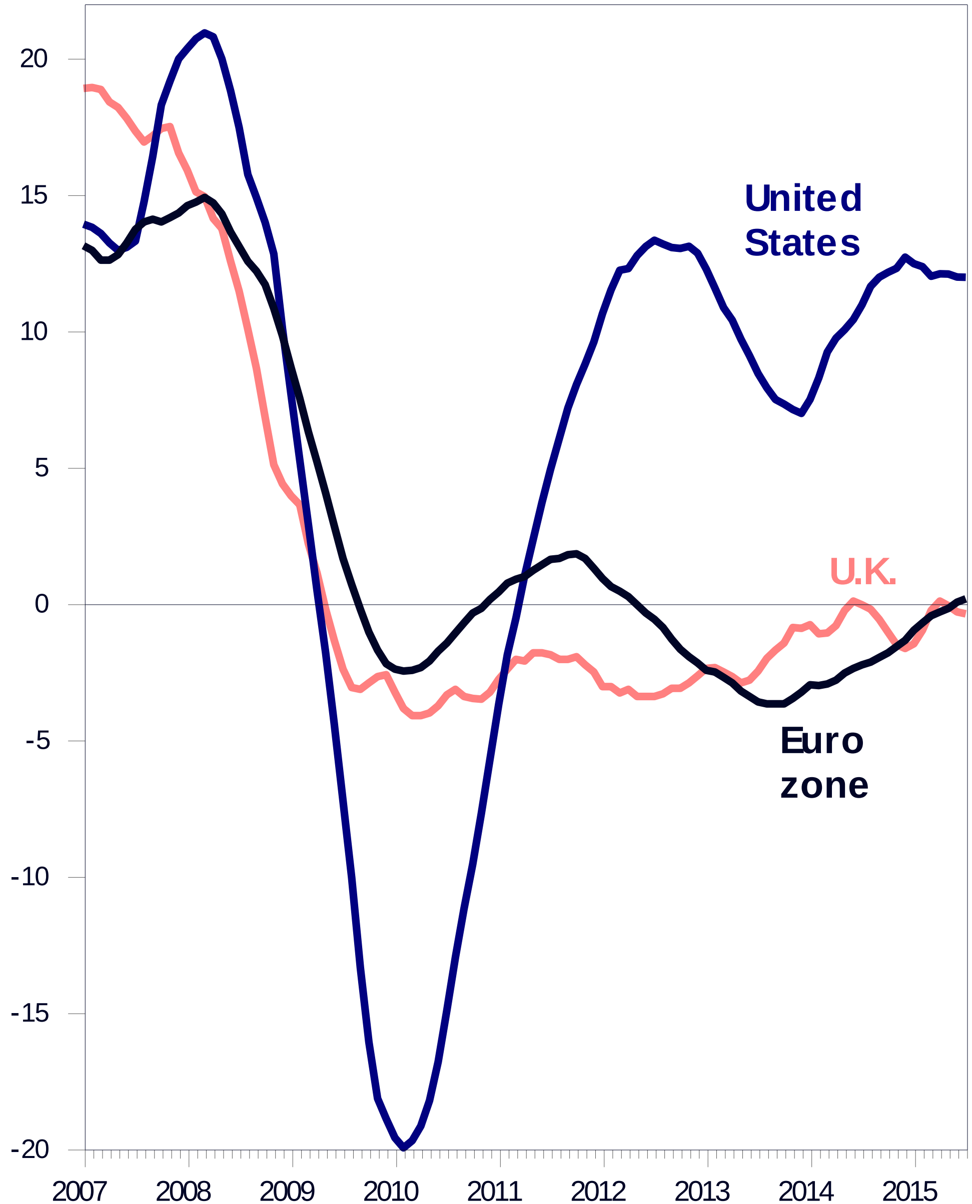
**(2000 = 100)**




*** In real terms.**

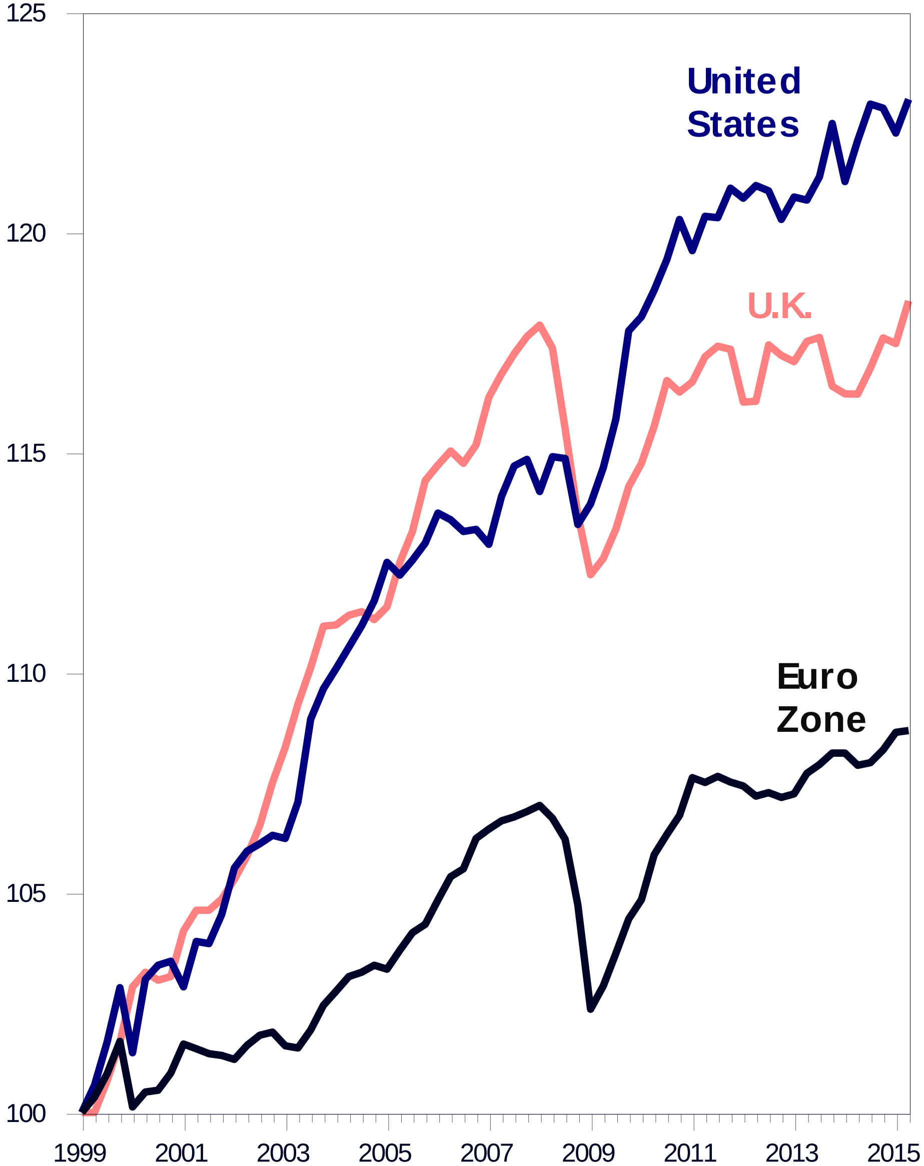
# GROWTH IN BANK LENDING TO BUSINESS

**(per cent changes; 3 mnths. mov.avrgs.)**



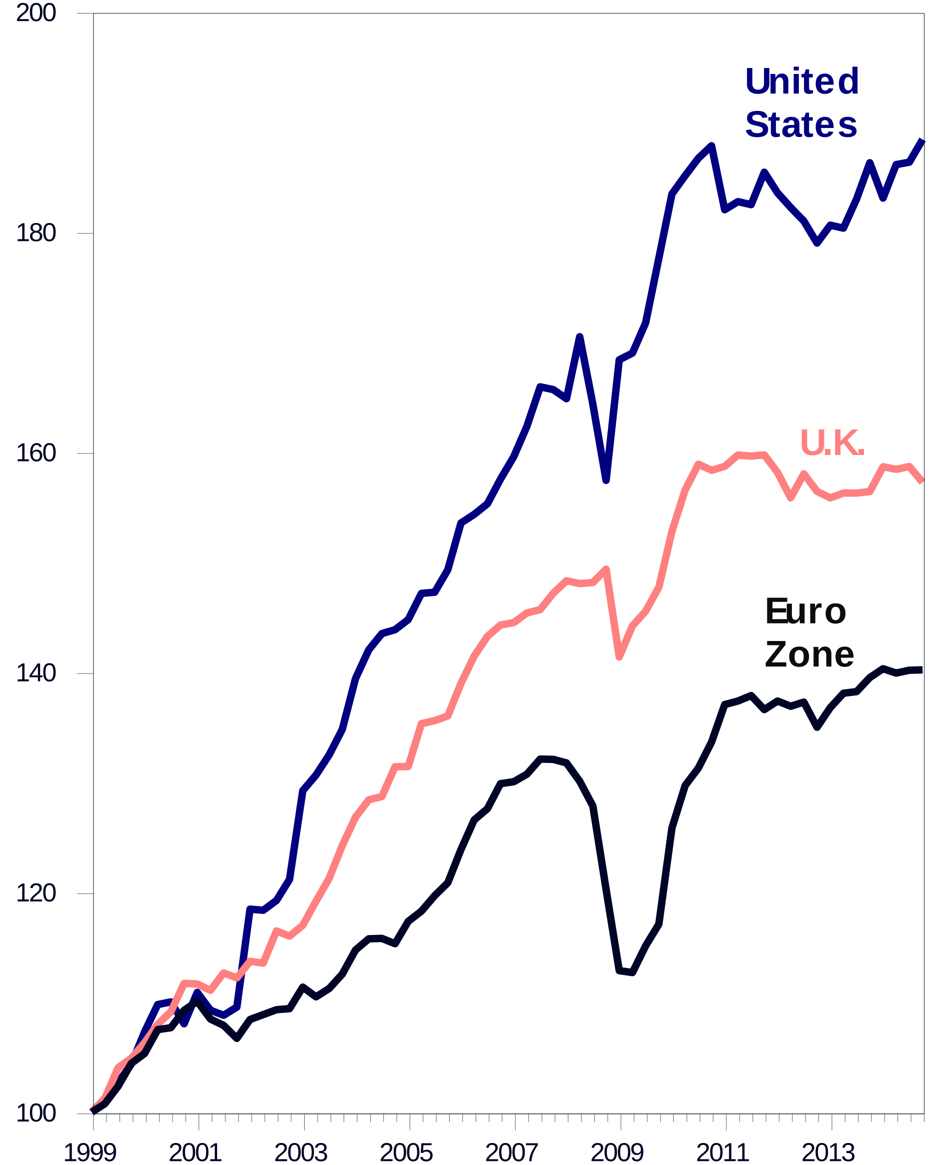
# TOTAL PRODUCTIVITY GROWTH

(GDP per employee; 1999 Q1 = 100)



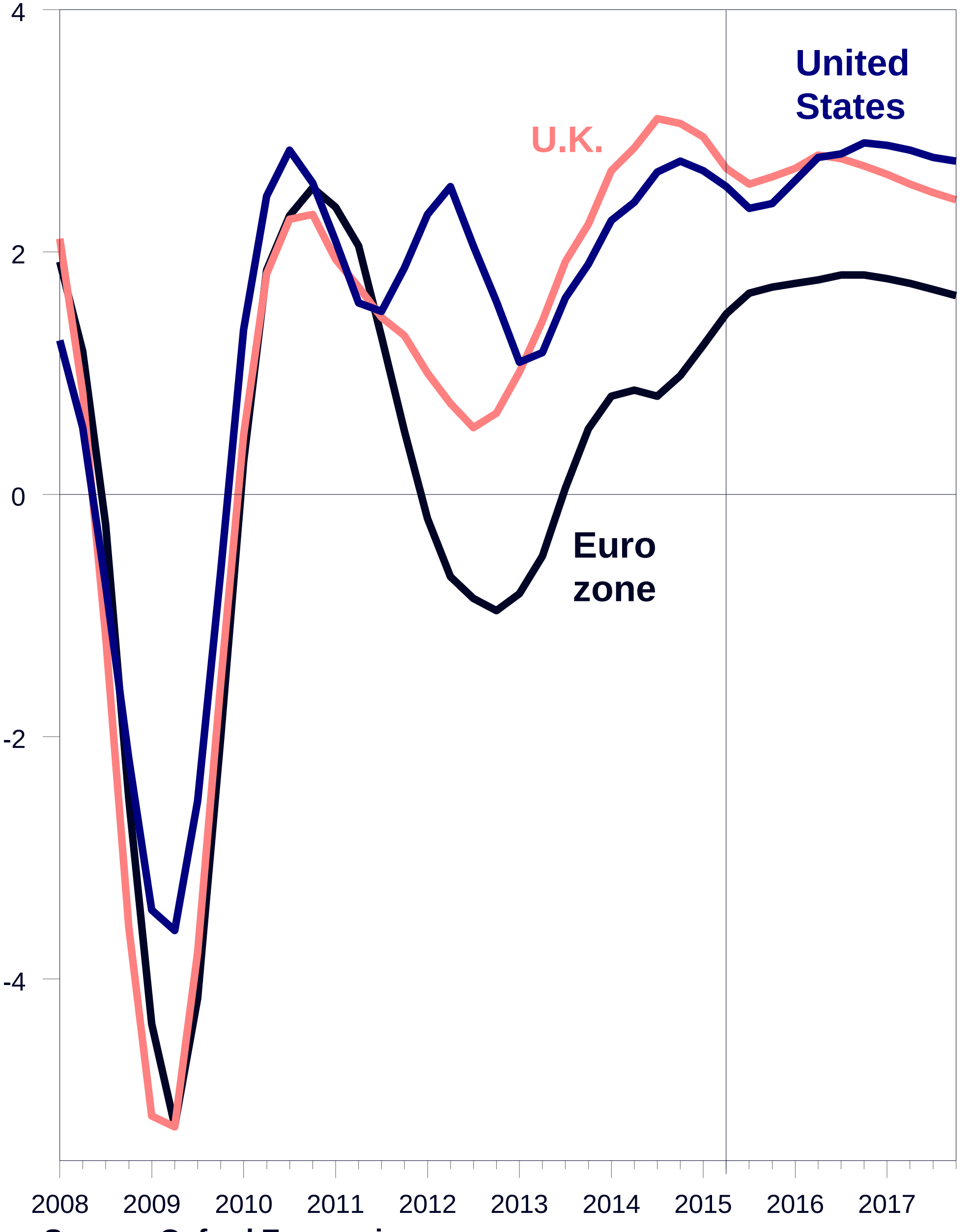

# PRODUCTIVITY GROWTH IN MANUFACTURING

(value added per employee; 1999 Q1 = 100)



# RECESSION AND RECOVERY

**(GDP; per cent changes; 3 qtrs. mv. avrgs.)**




**Source: Oxford Economics.**

# WHY RECOVERY ?

**Less fiscal austerity**

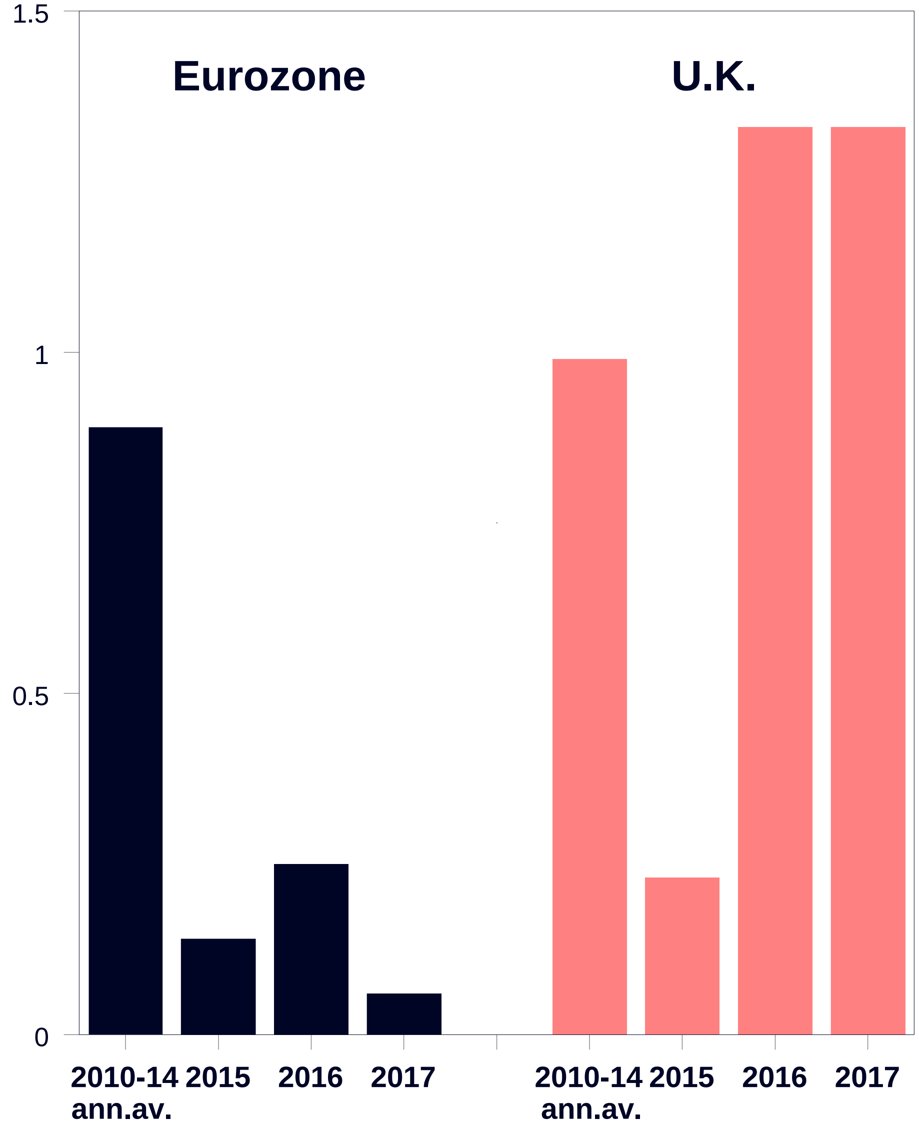
**The ECB's "quantitative easing" (QE)**

**The euro's decline**

**The fall in oil prices**

# IMF ESTIMATES OF FISCAL POLICY IMPACT IN 2010-17

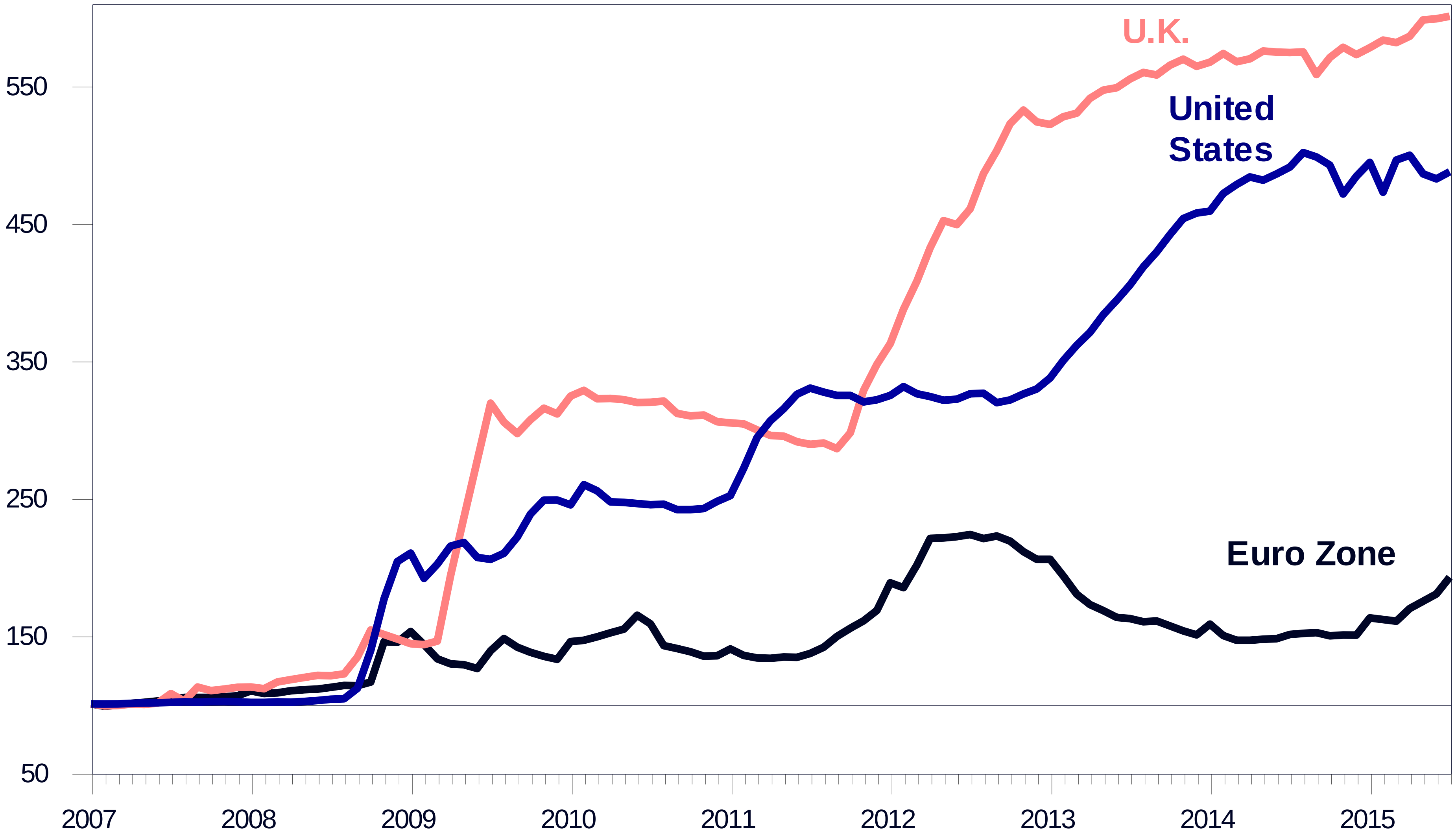
**(changes in the structural balance in % of GDP)**




**Source: IMF, April 2015.**

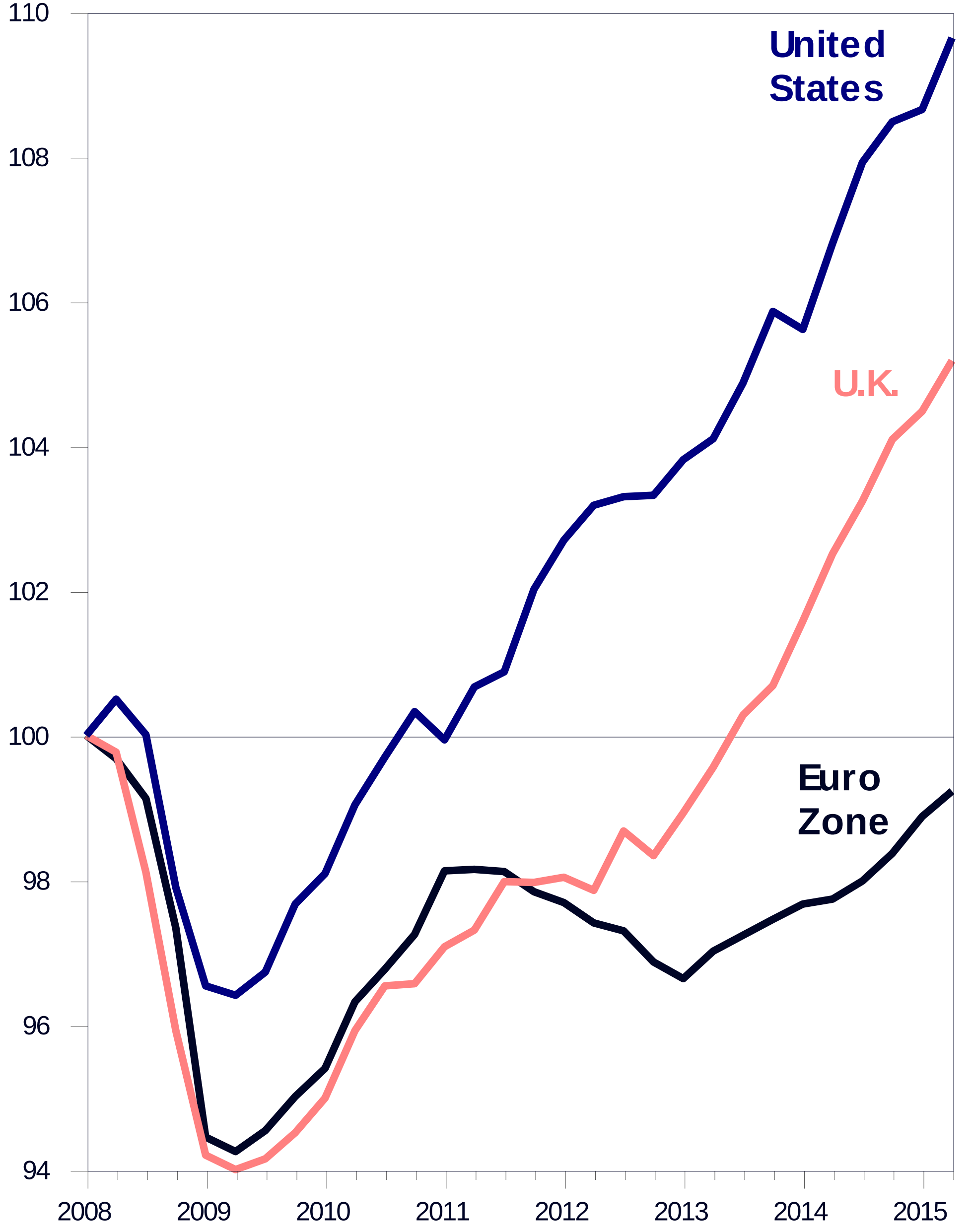
# MONETARY BASE

## (January 2007 = 100)



# RECESSION AND RECOVERY

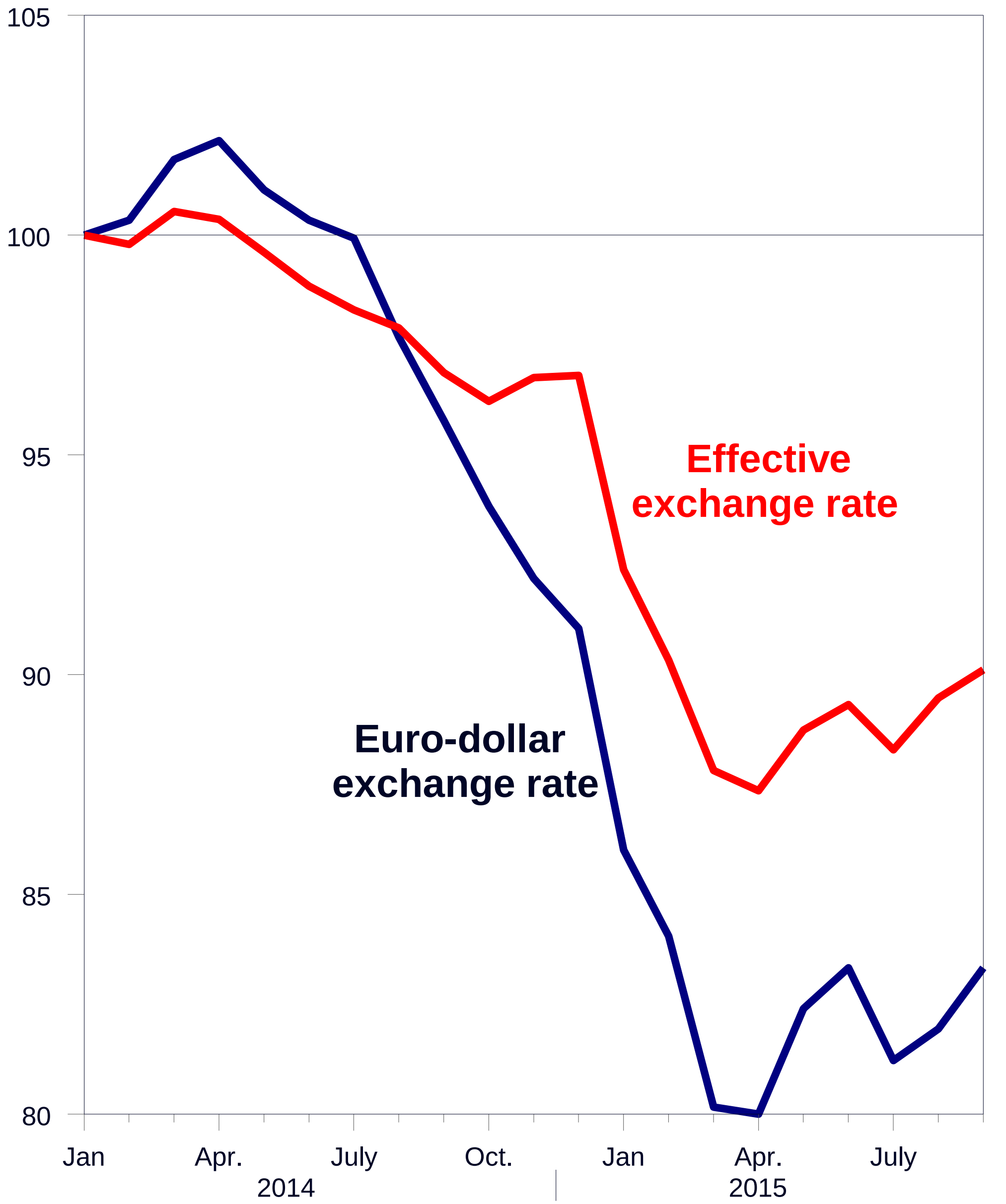
**(GDP; levels; 2008 Q1 = 100)**




**Source: Oxford Economics.**

# THE EURO'S EXCHANGE RATE

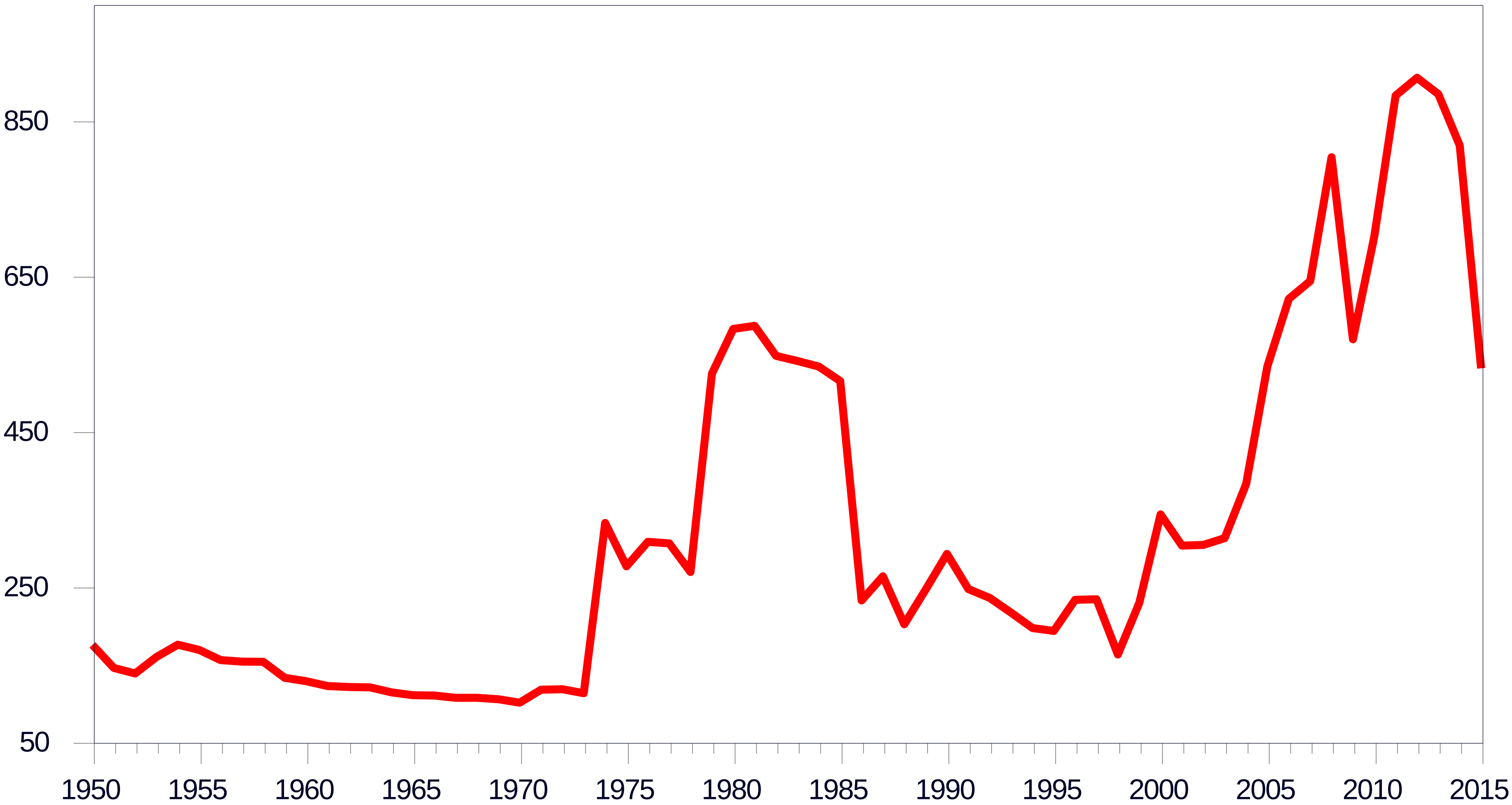
**(January 2014 = 100)**




**Source: Bank of England.**

# REAL OIL PRICES*

## (1970=100)




*** Deflated by export prices of manufactures**

# THE EFFECT OF FALLING OIL PRICES

**There are gainers and losers**

**Governments of oil producing countries and shareholders of oil producing companies lose**

**Conversely, citizens of oil consuming countries and oil using companies gain**

**Gains and losses offset each other and there is no change in total world income**

**But there is a change in world expenditure. At the margin, most oil producing countries spend less than oil consuming countries**

**Hence the growth rates of world demand and output are higher than they otherwise would have been**

**Rough estimates suggest a gain of as much as 0.5 per cent of world GDP in 2015-16 if the oil price remains at around $ 50/$ 60 a barrel**

# SO FAR SO GOOD ...

**Greece may still crash out**

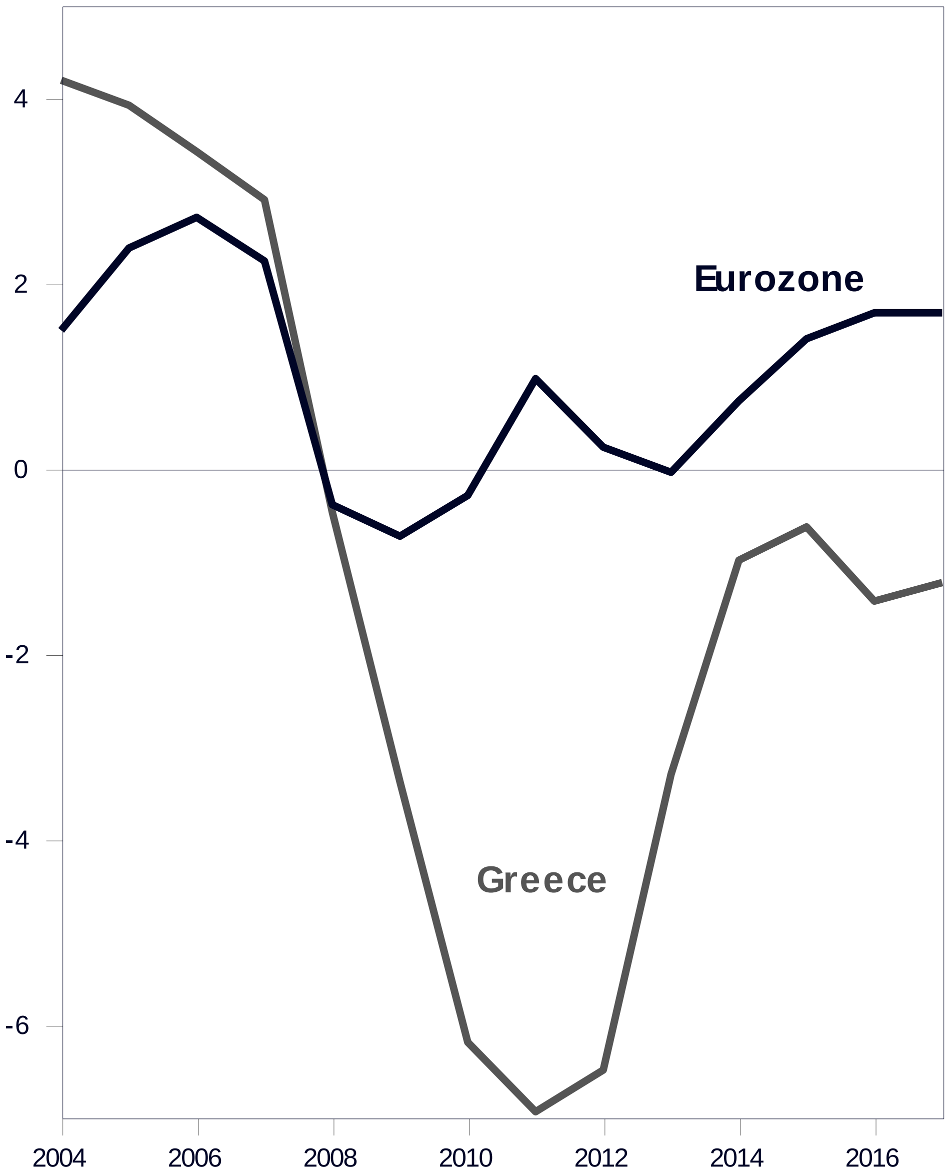
**The effects of this would be very uncertain**

**Two simulations below will attempt to quantify what might happen**

> **(as with all such simulations, the outcomes are heavily dependent on the assumptions made)**

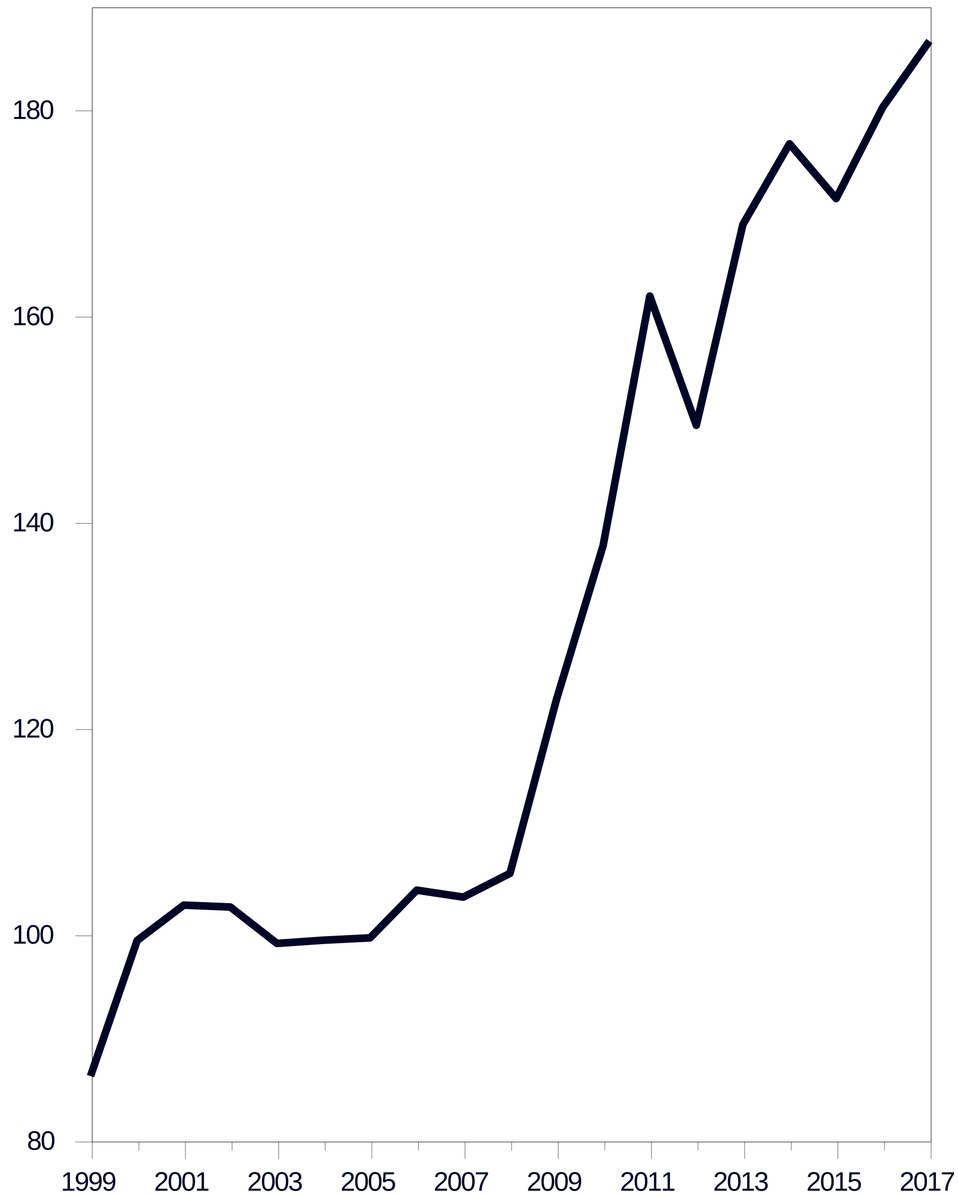
# GREEK AND EUROZONE GDP GROWTH

**(per cent changes; 3 years mov. avrgs.)**




# GREECE'S PUBLIC DEBT

**(in per cent of GDP)**

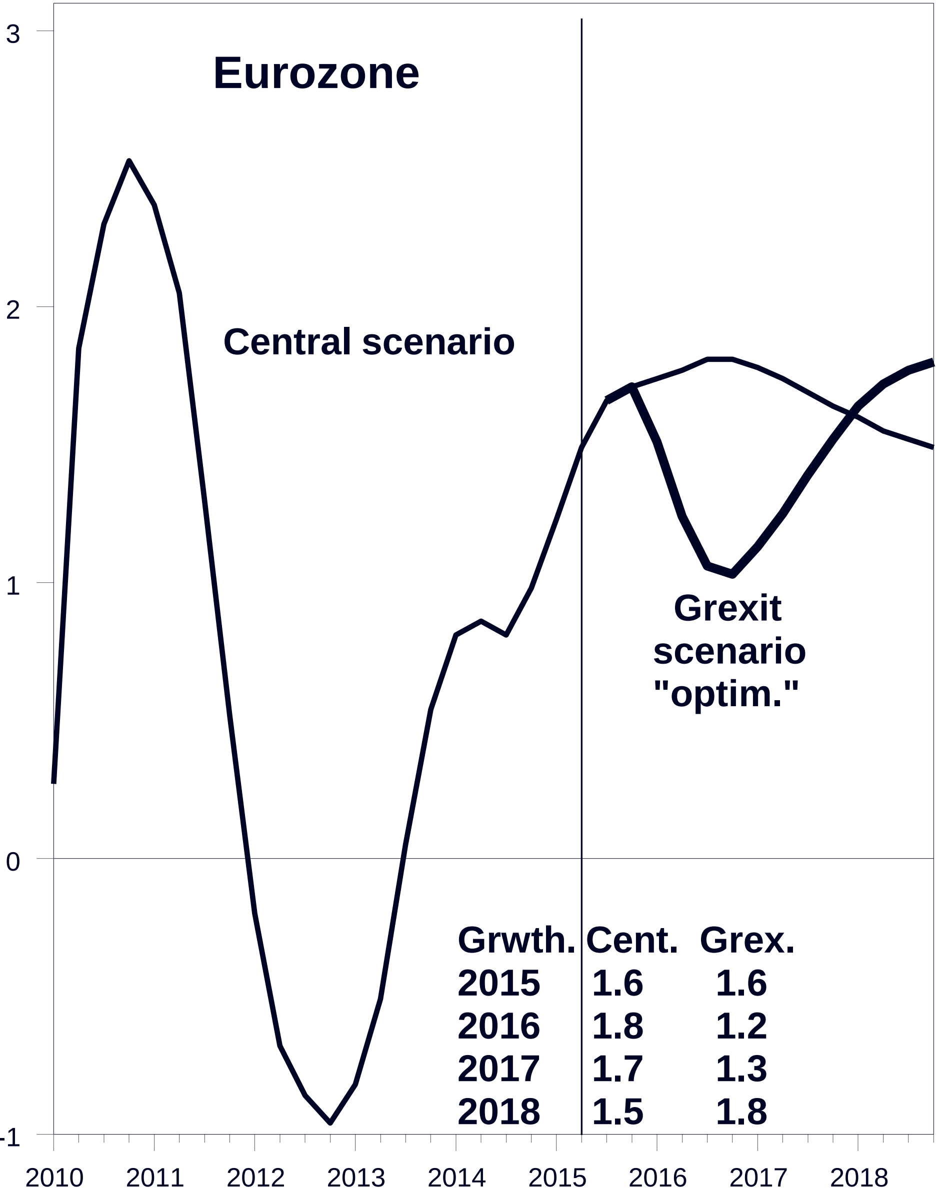


# TWO ALTERNATIVES FOR GREXIT

| "Orderly" or optimistic | "Disordely" or pessimistic |
| --- | --- |
| Greece gains favourable concessions and adopts credible policies | Greece drops out of the eurozone, there is banking chaos; high debt imposes restrictive policies |
| Elsewhere, financial contagion raises borrowing costs and depresses stock markets | Contagion is persistent, risk premia on "weak" countries remain high; financial market behaviour is similar to that which followed the Lehmann Brothers collapse |
| In due course, however, things return to normal | There is a severe hit to the Eurozone, but Euro depreciation improves competitiveness |

# GREXIT

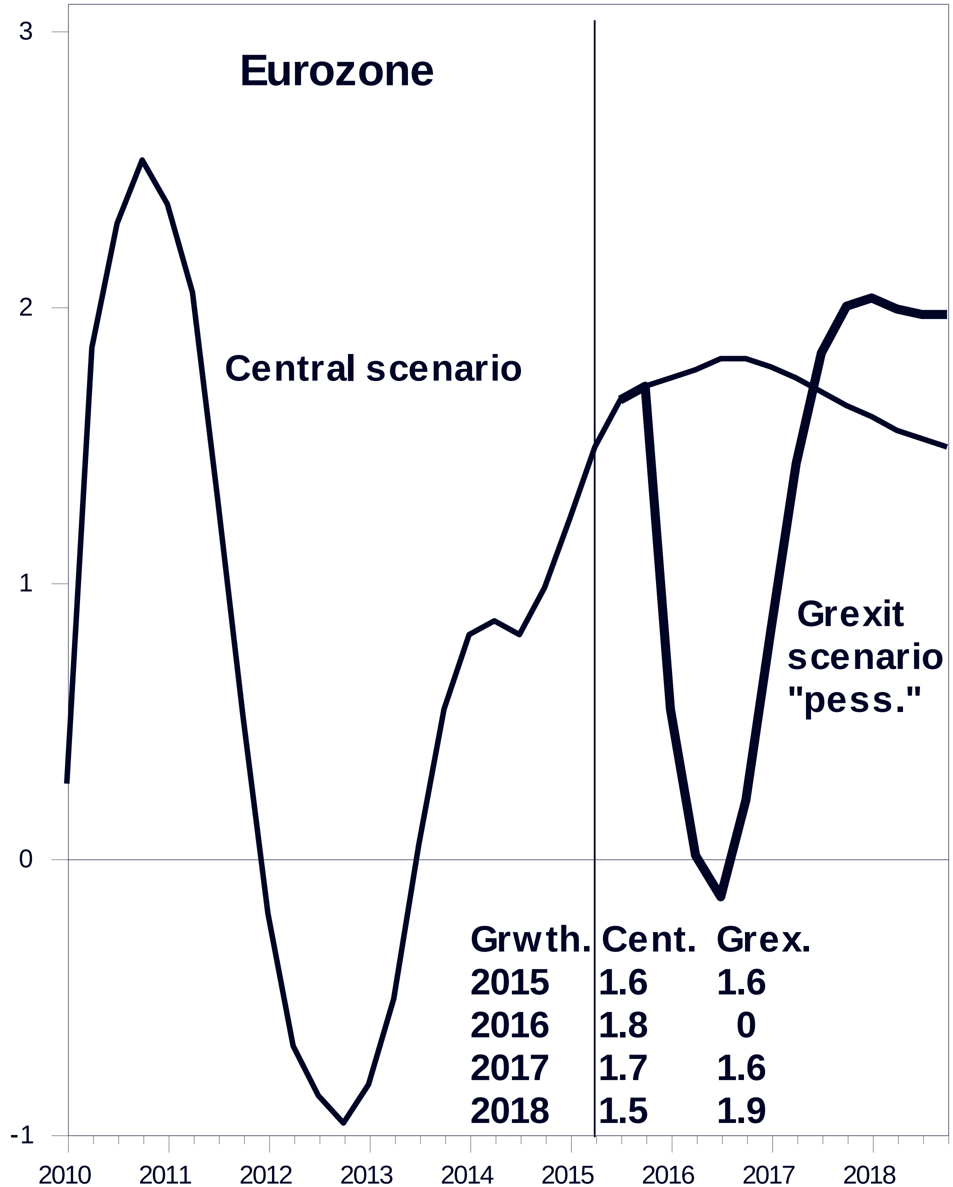
(GDP; per cent changes; 3 qtrs. mv. avrgs.)




Source: Oxford Economics.

# GREXIT

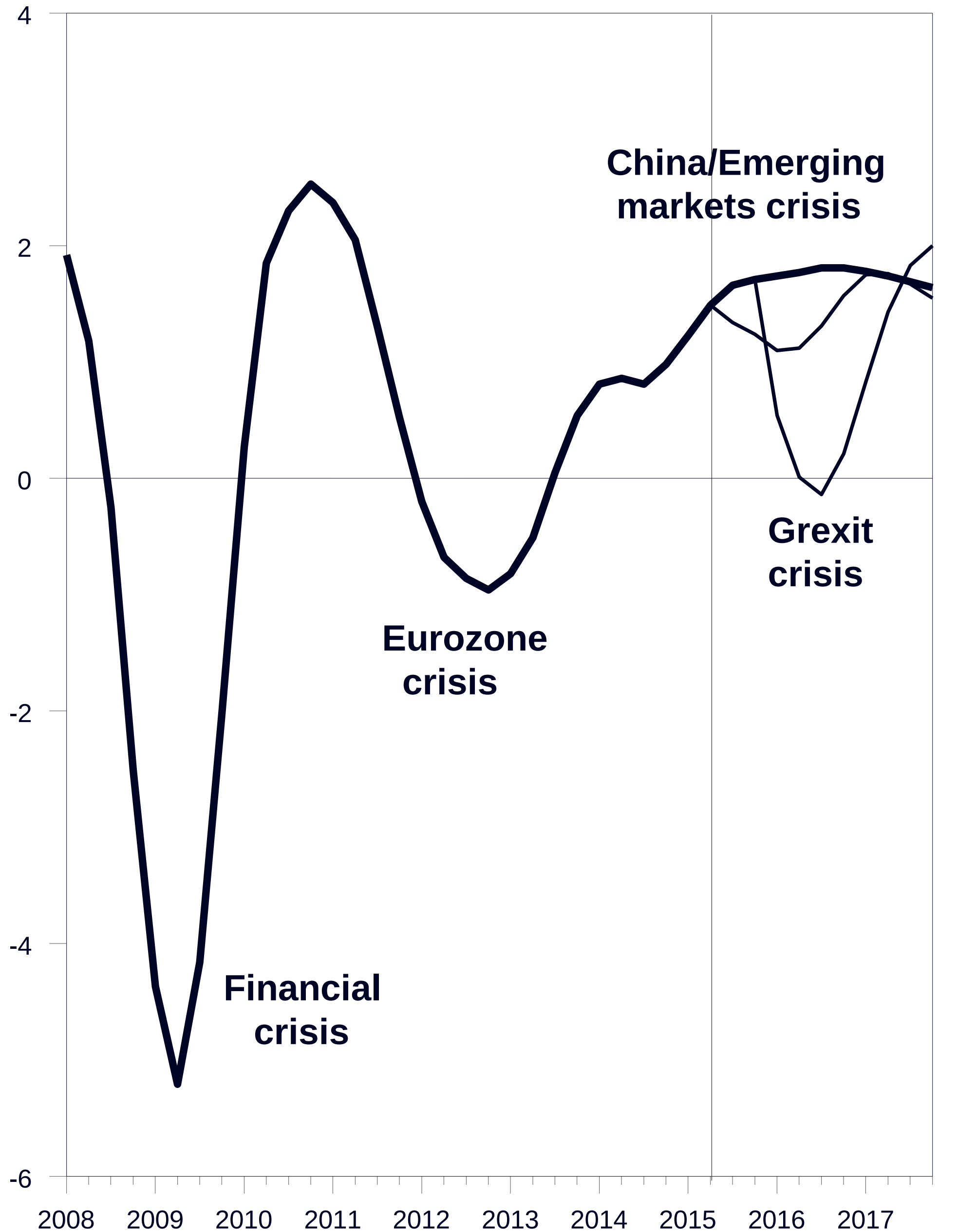
(GDP; per cent changes; 3 qtrs. mv. avrgs.)




Source: Oxford Economics.

# EUROZONE - THREE CRISES ?

## (GDP; % changes; 3 qtrs. mov. avrgs.)



# LONGER-RUN BRAKES ON GROWTH

An inevitable increase in interest rates

The need to reduce exceptionally high debt levels

Demography

A stronger euro ?

# INTEREST RATES IN FUTURE

An increase in US interest rates would seem inevitable

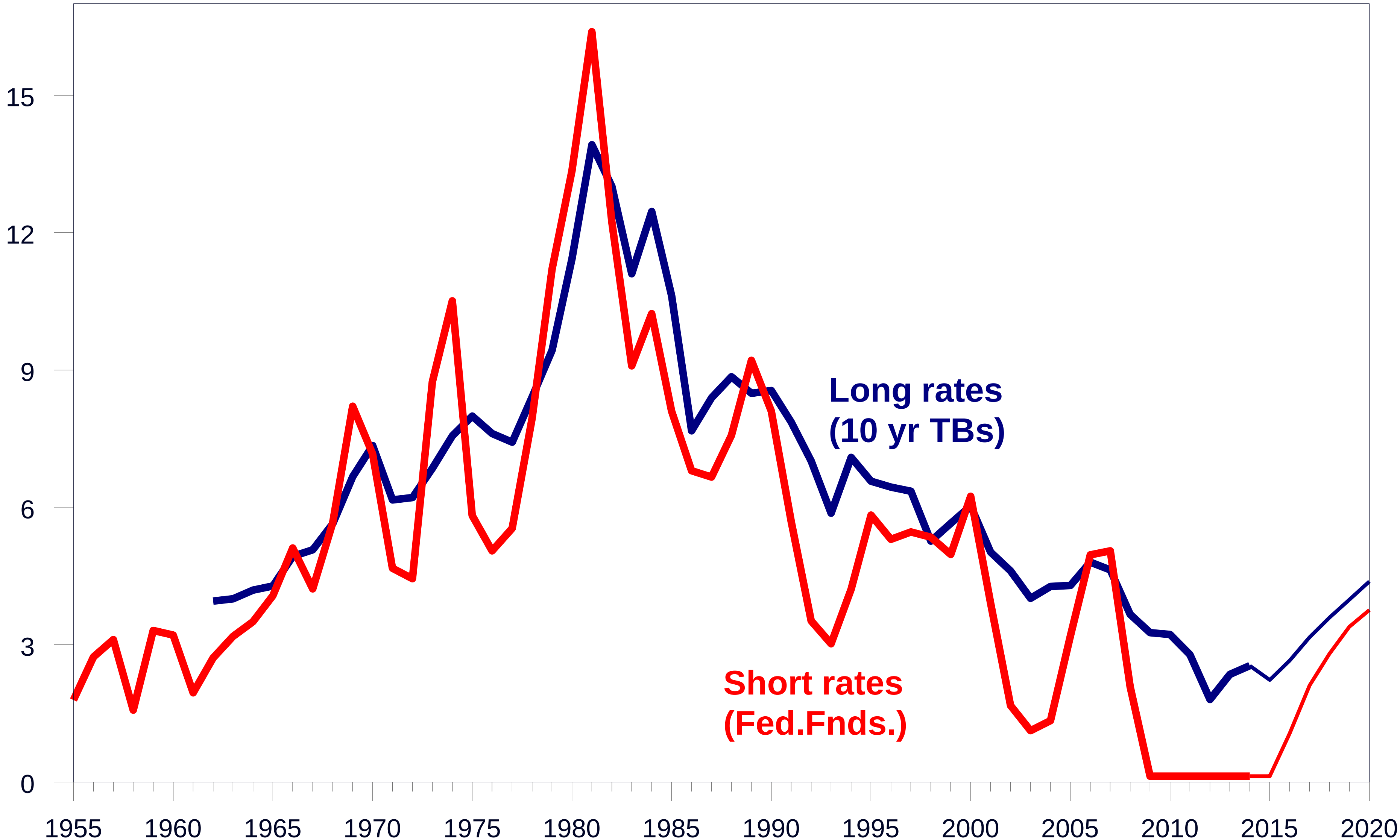
Such an increase would reflect a return to more normal economic conditions and will, therefore, be welcome (at least in America, perhaps less in many other countries)

What is very uncertain is what the reaction of the economy will be after six or more years of "zero" rates

Further strong dollar appreciation ?
Large negative "wealth effects" ?
A potential real estate crisis ?
What else ?

And in a few years time the same should happen in Europe (at least we will have the American example from which to learn)

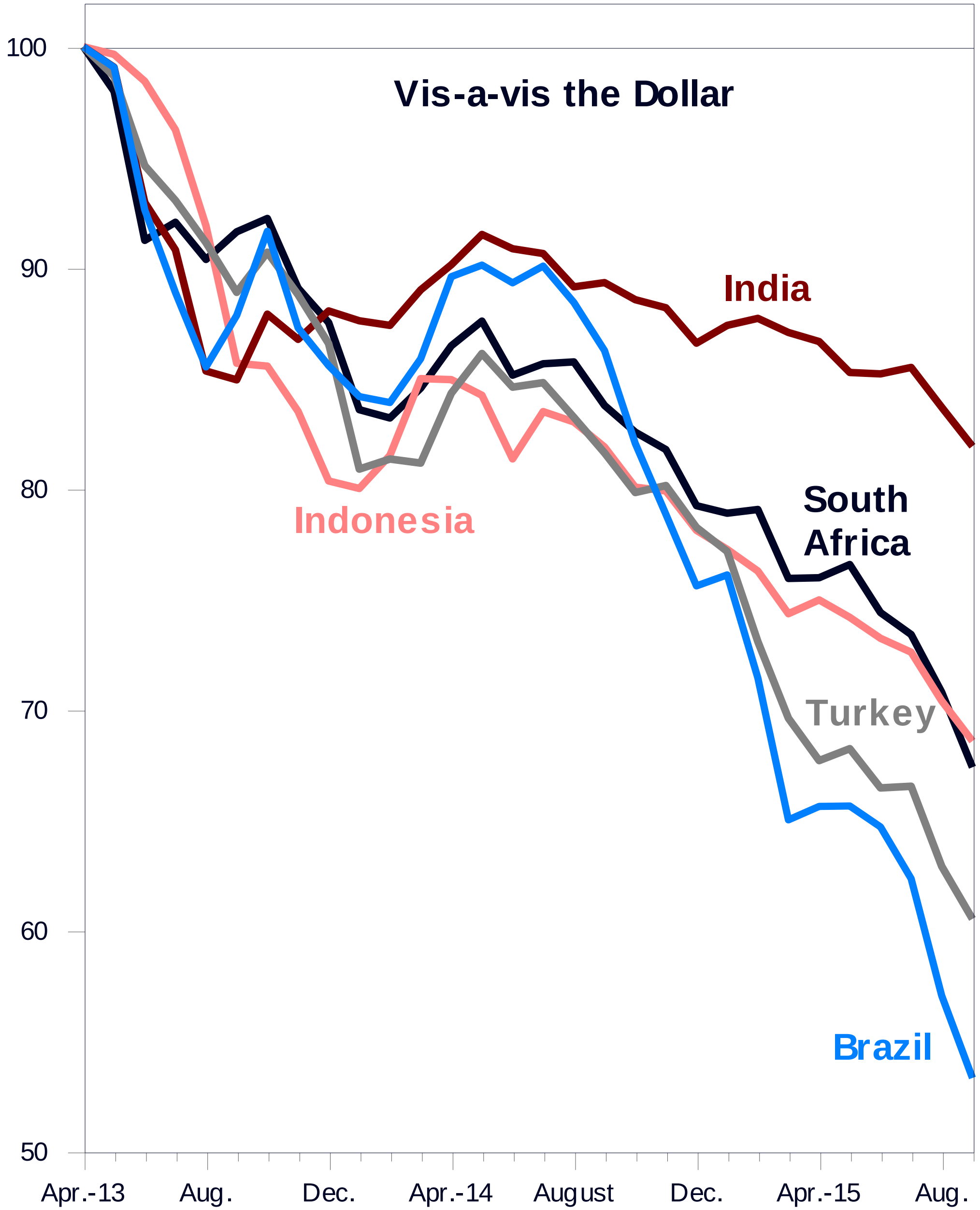
# UNITED STATES - INTEREST RATES



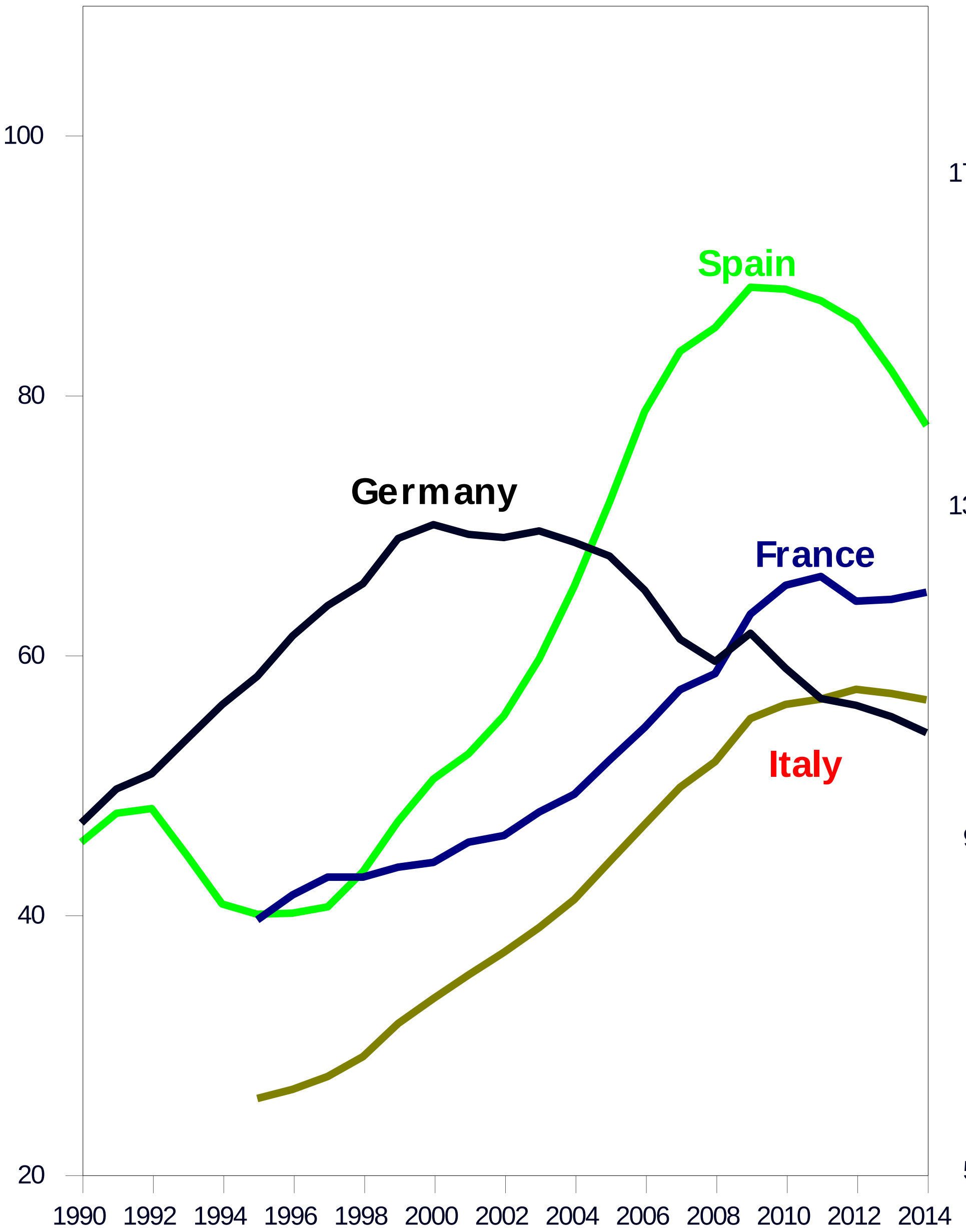

**Source: Oxford Economics.**

# SELECTED EXCHANGE RATES

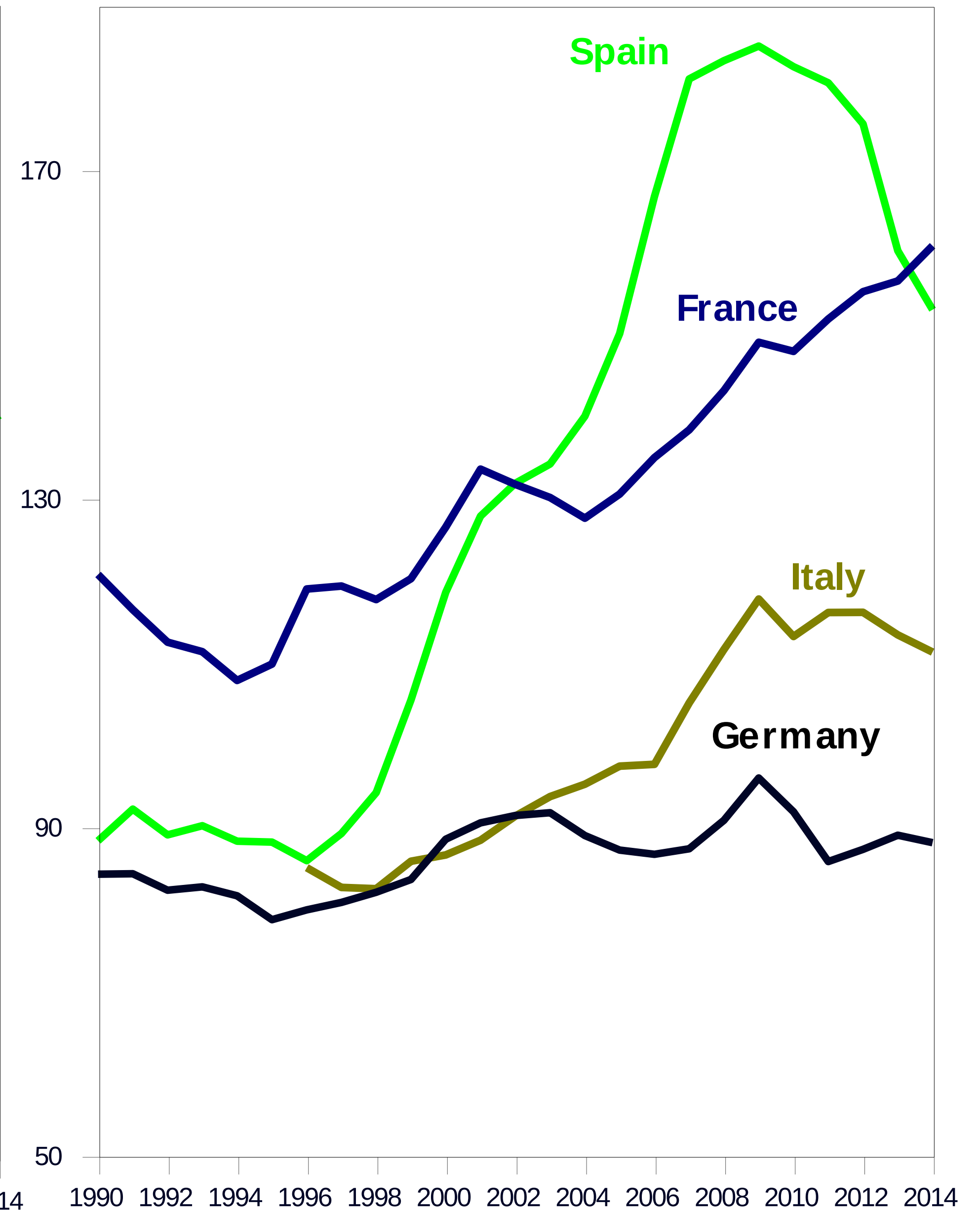
## (April 2013 = 100)



# HOUSEHOLDS DEBT/GDP RATIOS

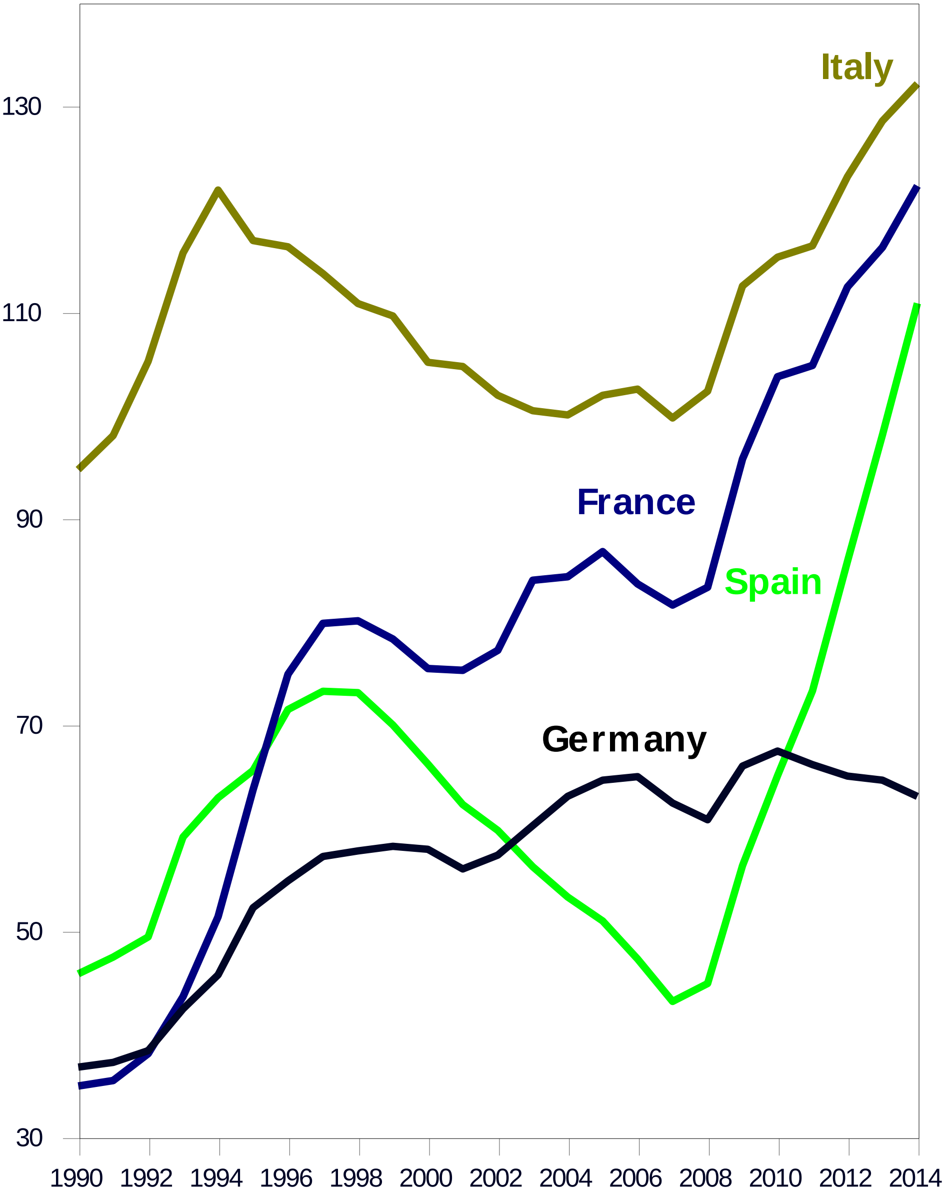



# CORPORATIONS* DEBT/GDP RATIOS

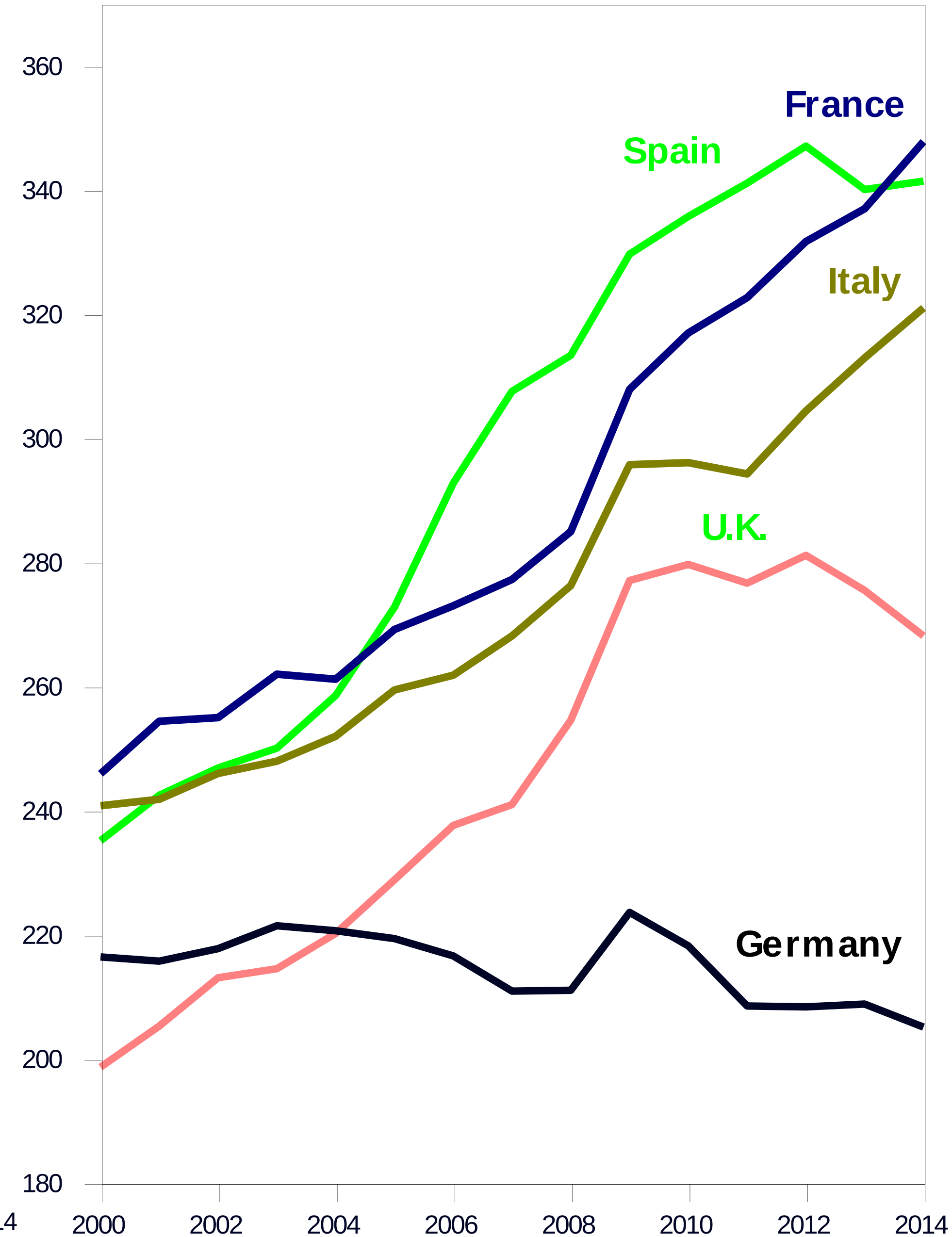



*** Non-financial sector.**

# PUBLIC SECTOR DEBT/GDP RATIOS



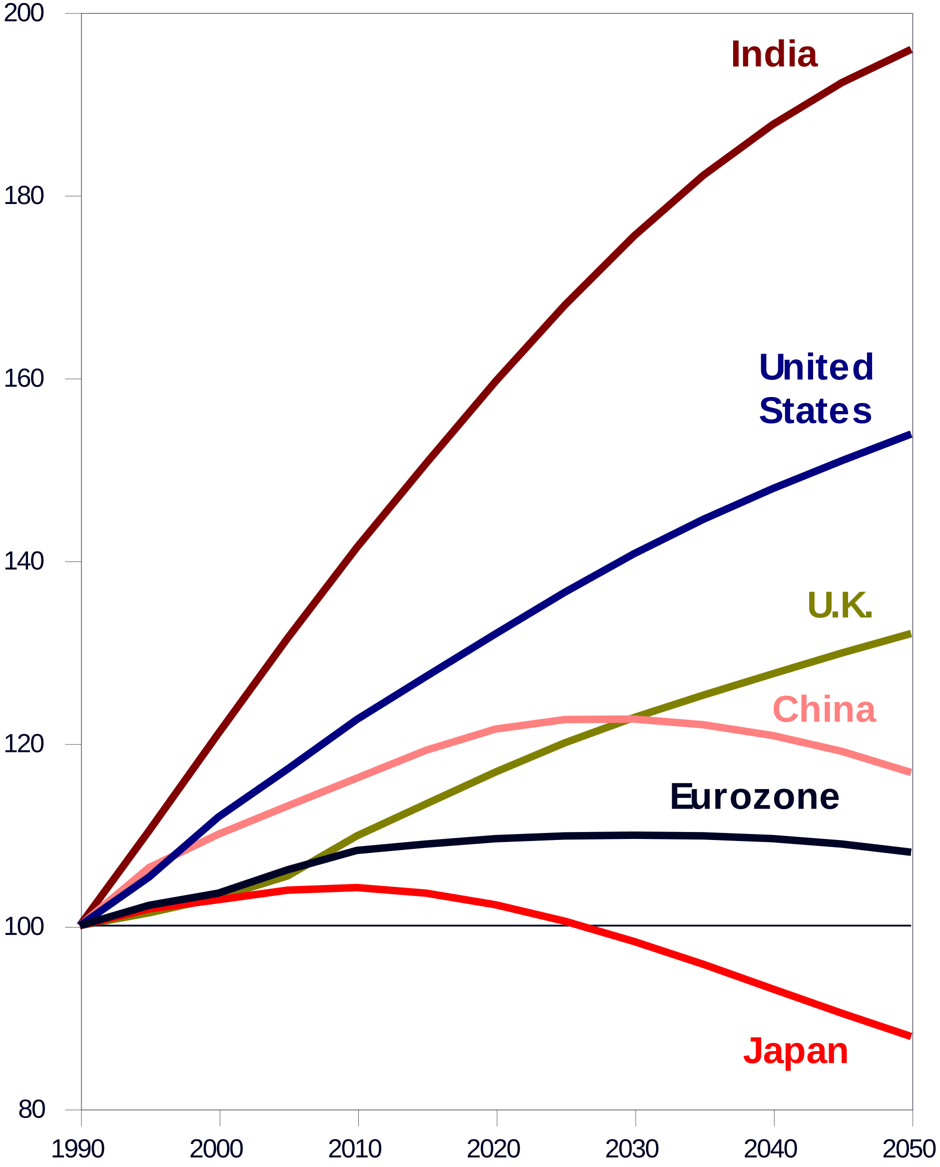

# TOTAL* DEBT/GDP RATIOS




* Families, companies (excluding the financ. sector) and govt.

# POPULATION LEVELS

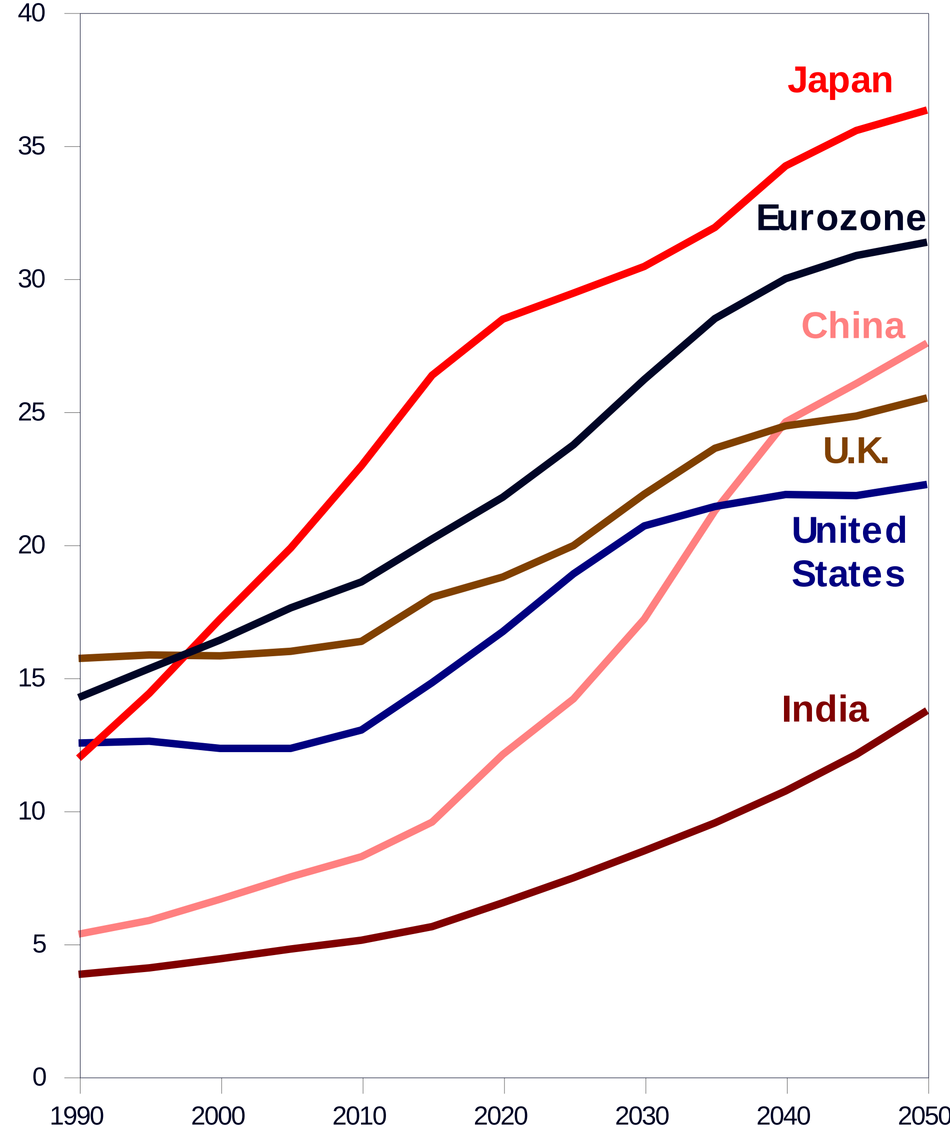
**(1990 = 100)**




***Source*** **: UNPD**

# THE AGEING POPULATION

**(share of people aged 65 and more in total population)**




***Source*** **: UNPD**

# EURO-DOLLAR RATE

## (dollars per euro)