

Foresight,  
Insight,  
Outlook.

Economist Intelligence Unit

The  
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# Core Capabilities

**Economist Intelligence Unit**

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Analysis and forecasting for over 200 countries

Industry Data and Trends

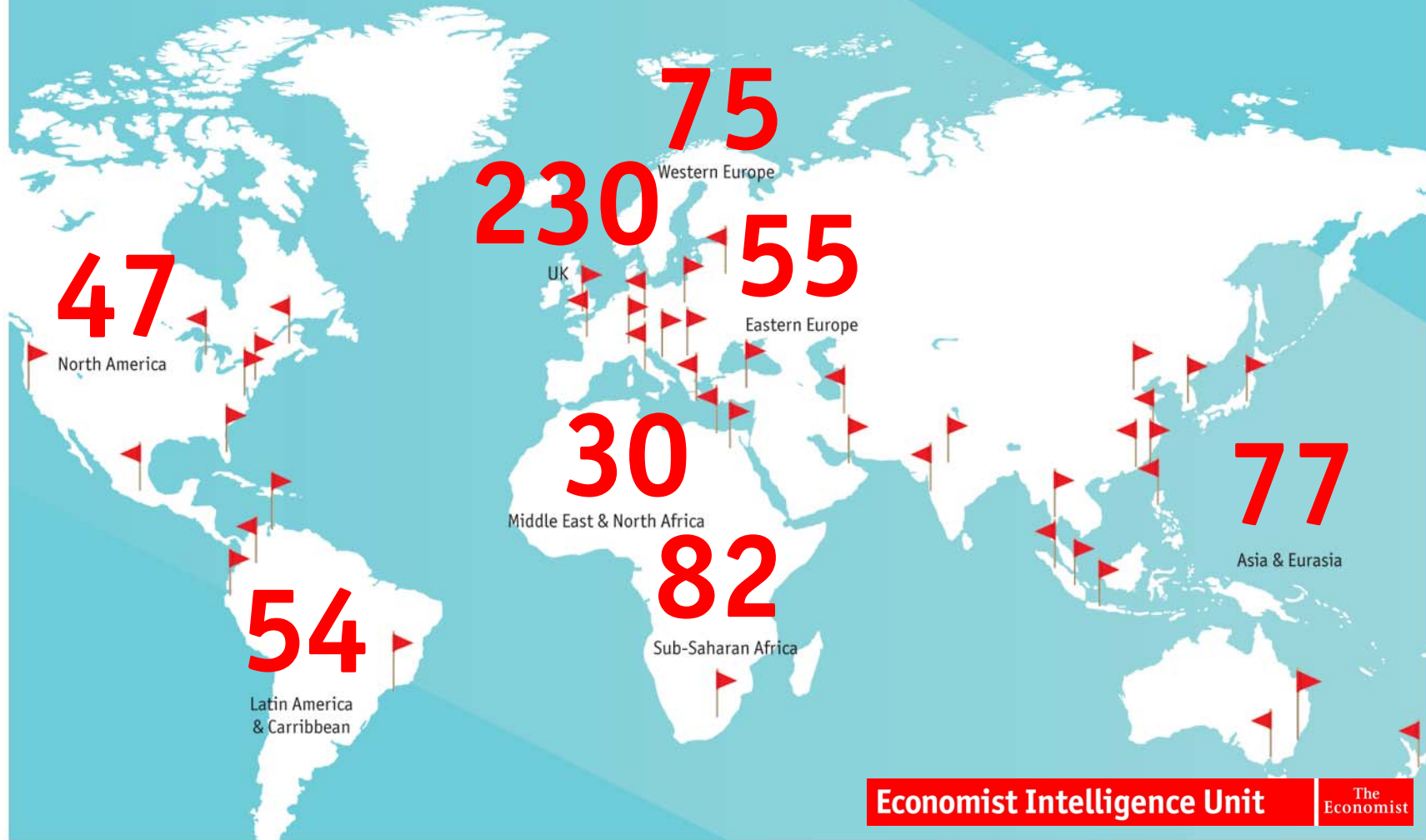
Market Entry and Sizing

Risk Assessment



# EIU covers the map

Country analysts, industry specialists and contributors by the numbers



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# How we create reliable analysis and forecasts

## Ensure quality

- Automated checks
- Review by country analysts
- Final approval by regional heads

## Qualitative and quantitative approach

- Use a variety of models
- Provide qualitative insight
- Apply global assumptions

## Gather dependable information

- Use in-country analysts
- Conduct primary research
- Select most timely, reliable data

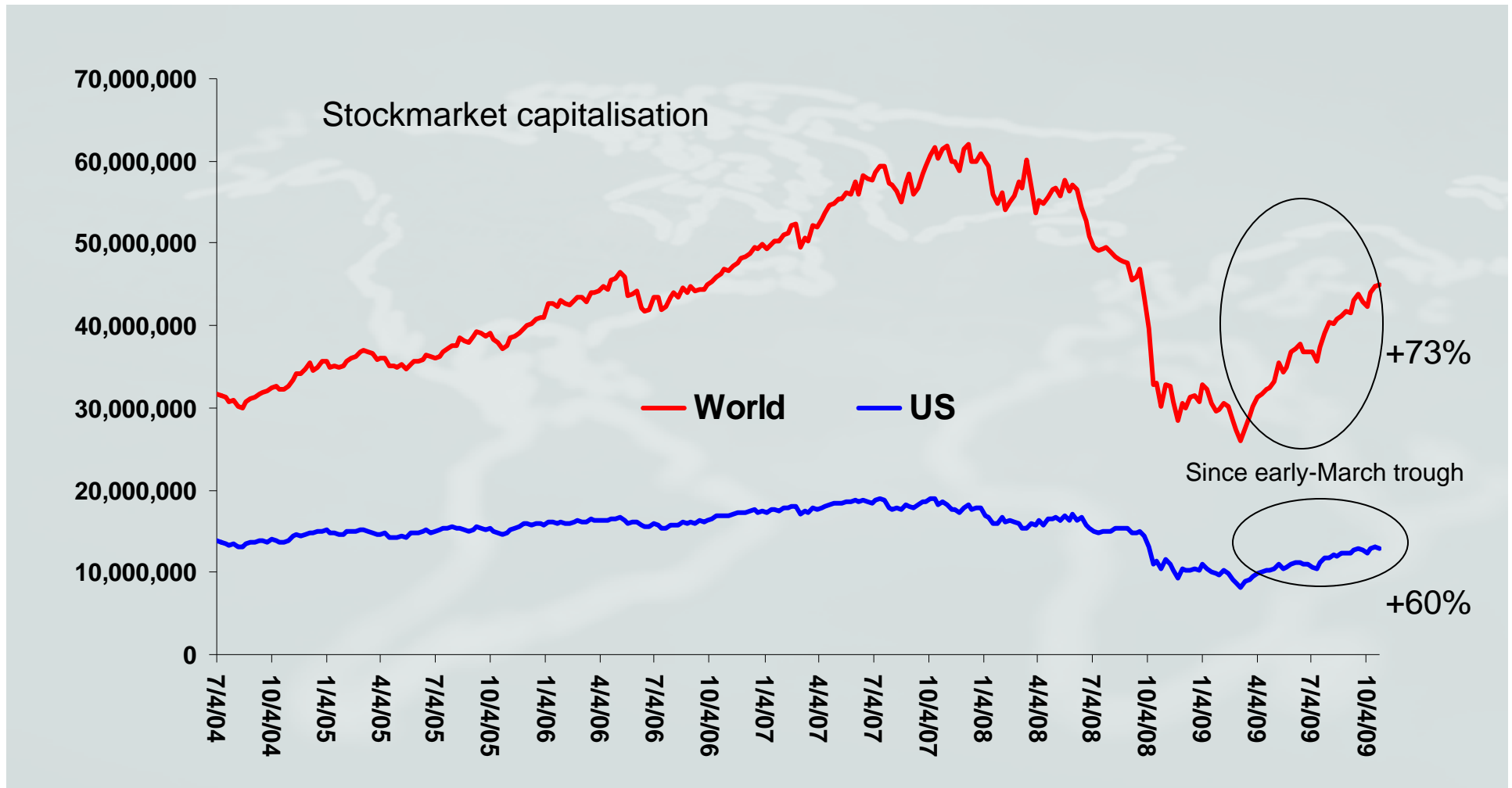
# Is it safe to come out? What's ahead for the global economy



**Leo Abruzzese**  
Editorial Director, Americas  
November 2009

Is the recession over?

# Stock prices have risen sharply



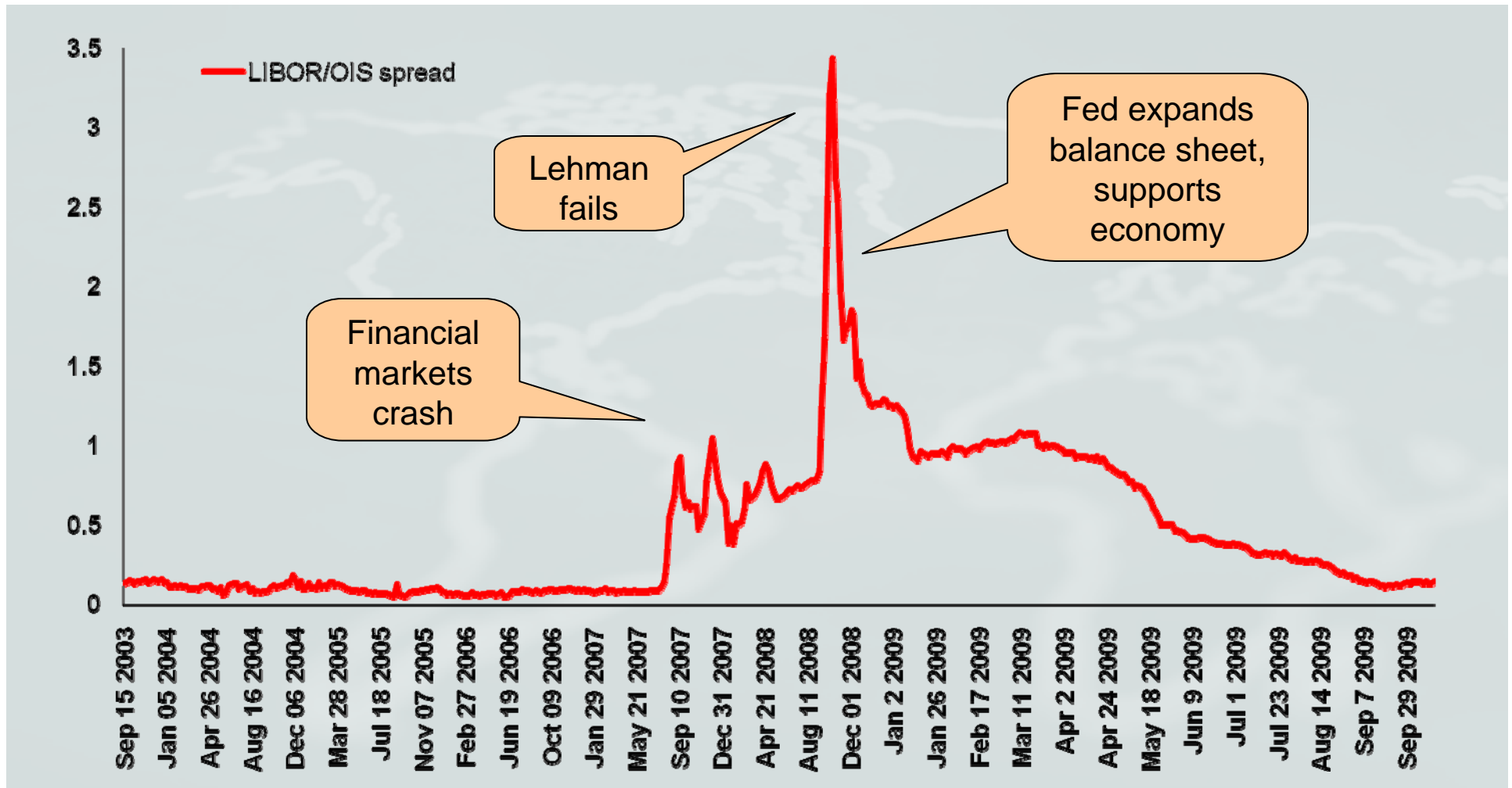
US\$m

Source: Bloomberg

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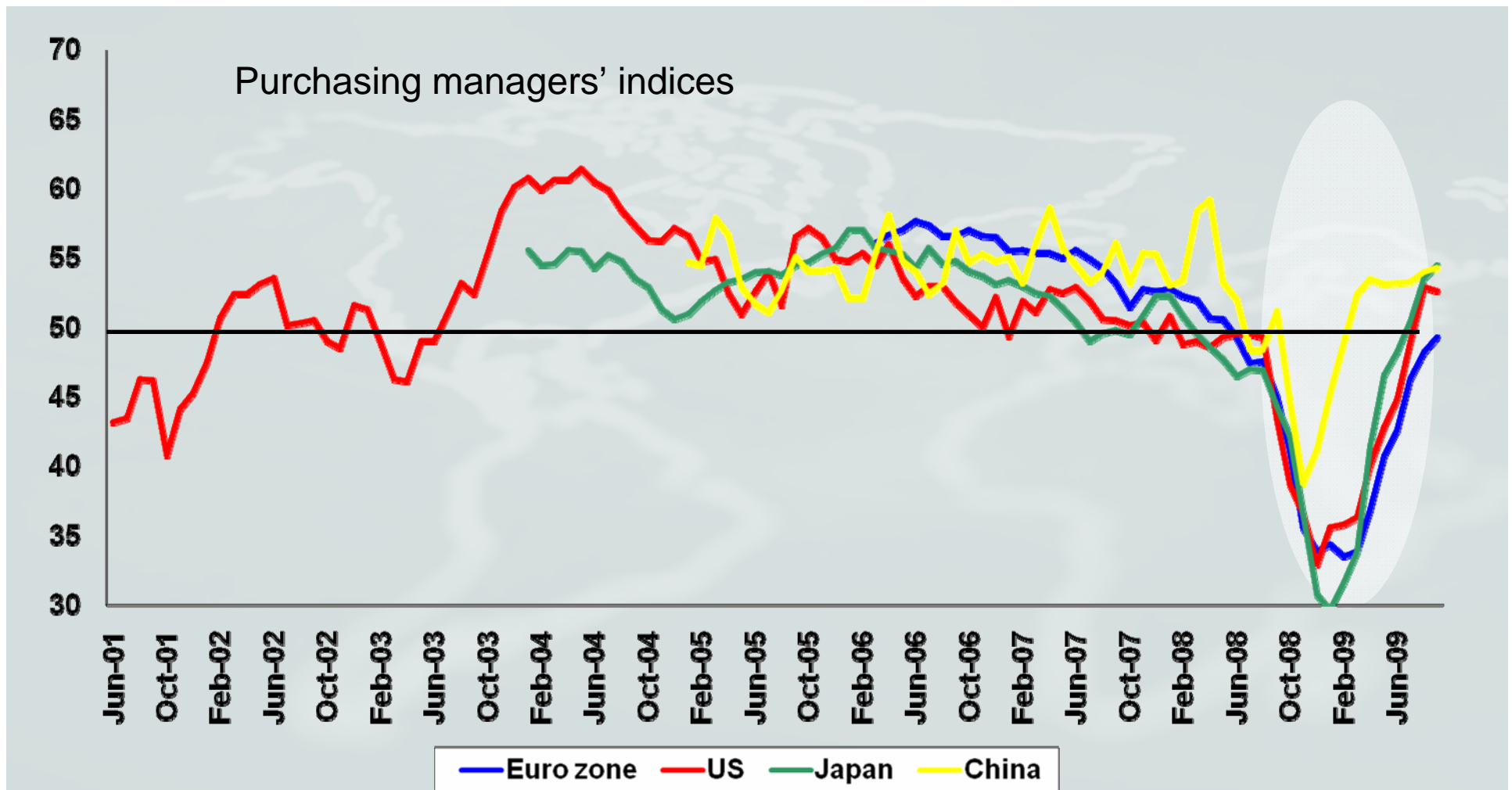
# The stress-o-meter continues to de-stress...



3-month LIBOR/3-month overnight index swap (OIS) spread, percentage points. **A higher spread denotes more market stress.** Sources: Haver Analytics; Economist Intelligence Unit.



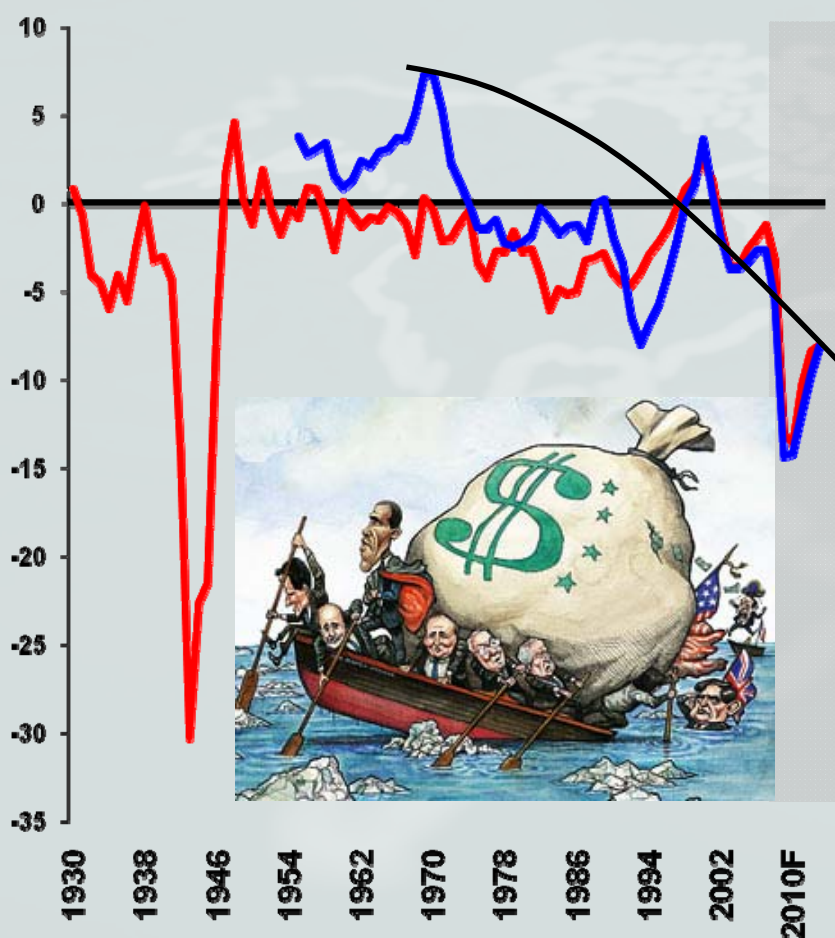
# ... and growth has returned



Purchasing managers index. For US, ISM manufacturing index  
**50 indicates breakeven; a reading above 50 suggests expansion.** Source: Bloomberg.

So we're out of the  
woods?

# No state life support, no economy ...



- Governments backstopping their economies
- Bank losses socialised—solvency crisis continues
- Banks using “free money”/stock rally to recapitalise
- Bank results flattered by official forbearance
  - Mark-to-market relief
- Pressure still on banks to boost asset quality, cut lending
- Firms: from “profit maximisation” to “debt minimisation”?

US federal budget deficit. % of GDP, red.  
UK budget deficit. % of GDP, blue.  
Source: Haver Analytics.

# Global: Recoverology



## Bounce-back theory: “V”

- The sharper the contraction, the stronger the recovery

## Financial-impairment theory: “U”, “L”

- Recoveries following financial crises are much slower than normal recoveries

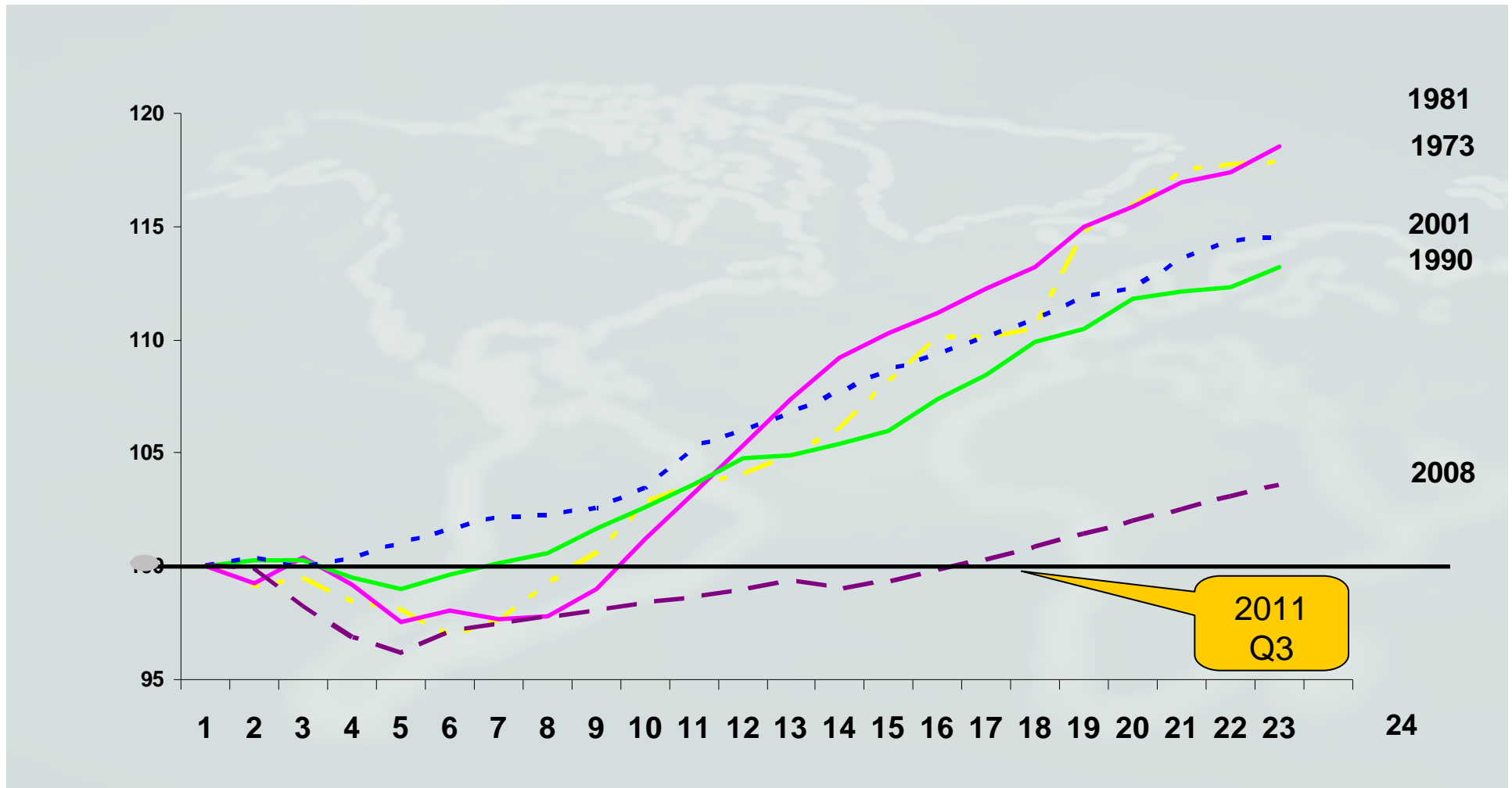
## Borrowed-time theory: “W”

- Stimulus boosts economy at the cost of weakness later

## Armageddon theory: “Q”

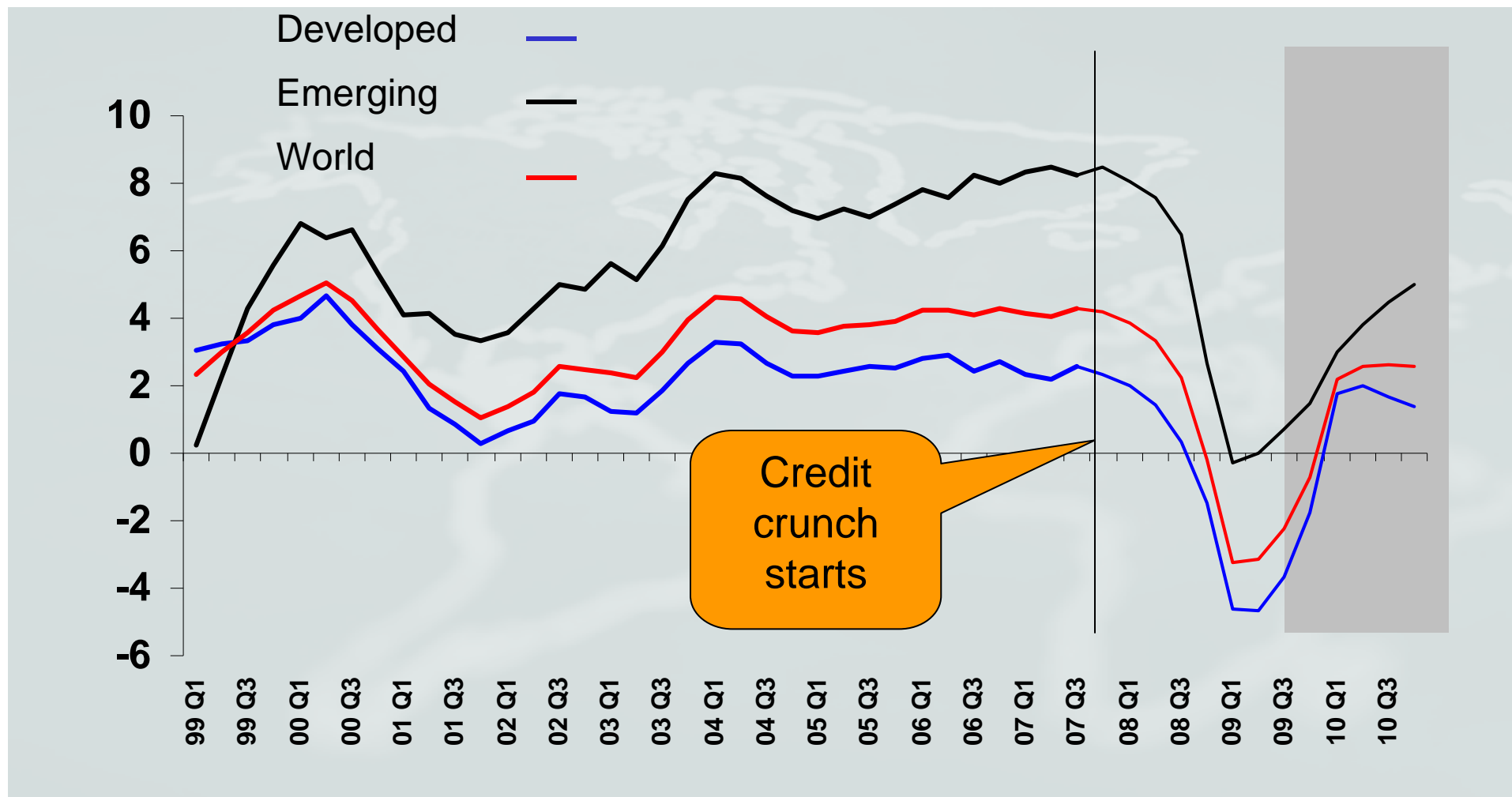
- Too grim to talk about

# US: A “W” not a “V”... but with a catch



Peak of GDP = 100. Quarters from peak of GDP.  
 Years denote year of peak. 2007 peak in Q3.  
 Sources: BEA; Economist Intelligence Unit.

# Baseline global scenario: short term



GDP growth, % year on year

Source: EIU estimates

US: Headwinds

# Anatomy of a (slow) recovery: 3Q 2009

Stimulus, stimulus everywhere

- 'Cash for clunkers'
- Housing tax incentives

Inventory rebuilding

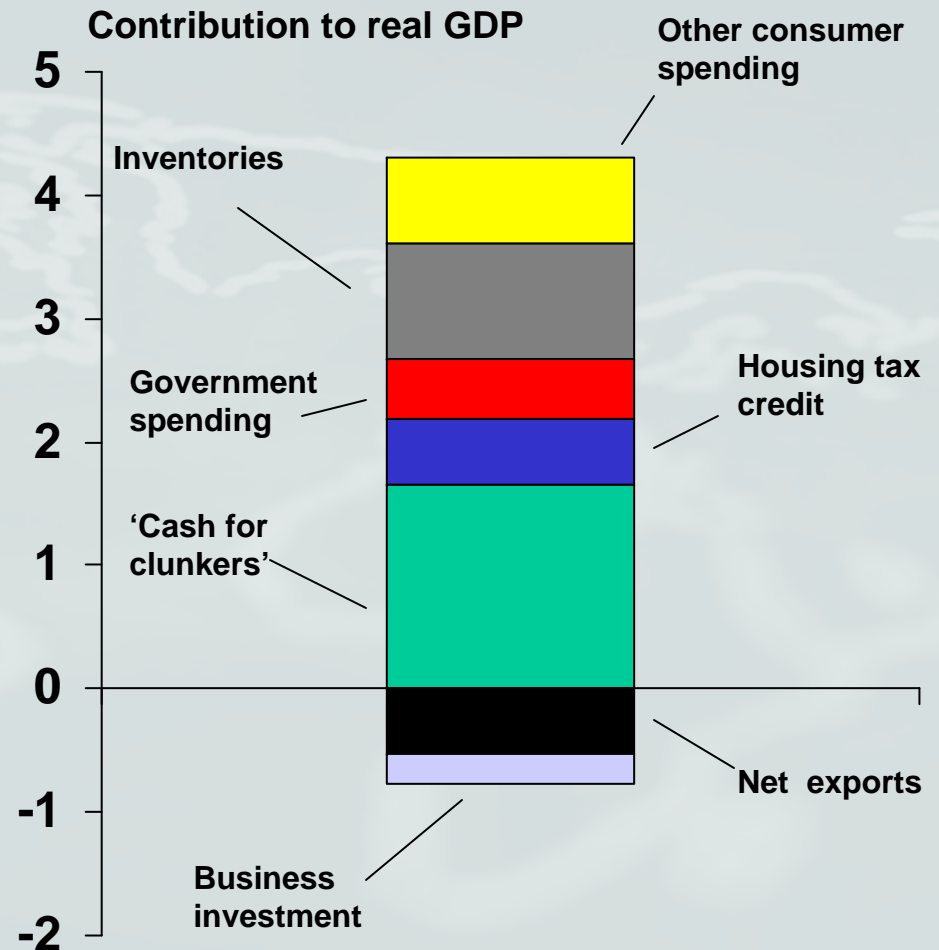
- Shelves need to be re-stocked

Business investment?

Exports?

- Falling

How much growth without government & re-stocking?



Contribution to real GDP; percentage points

Source: Bureau of Economic Analysis



# Anatomy of a (slow) recovery: 3Q 2009

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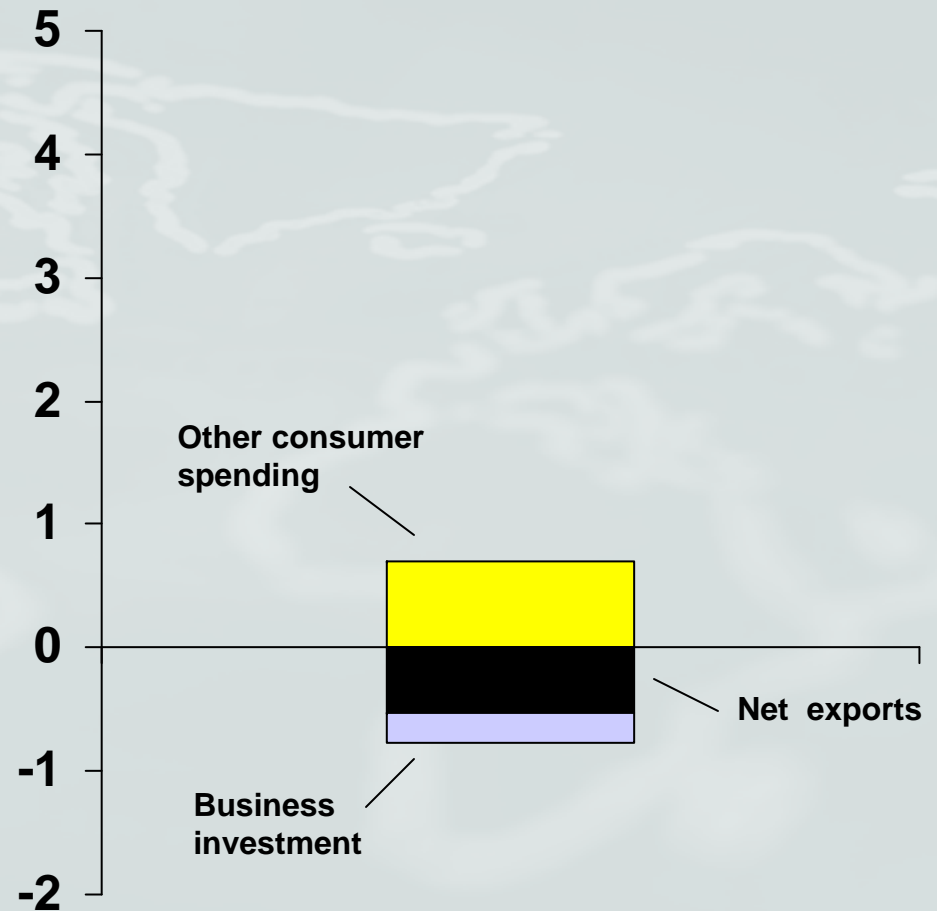
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Business investment?

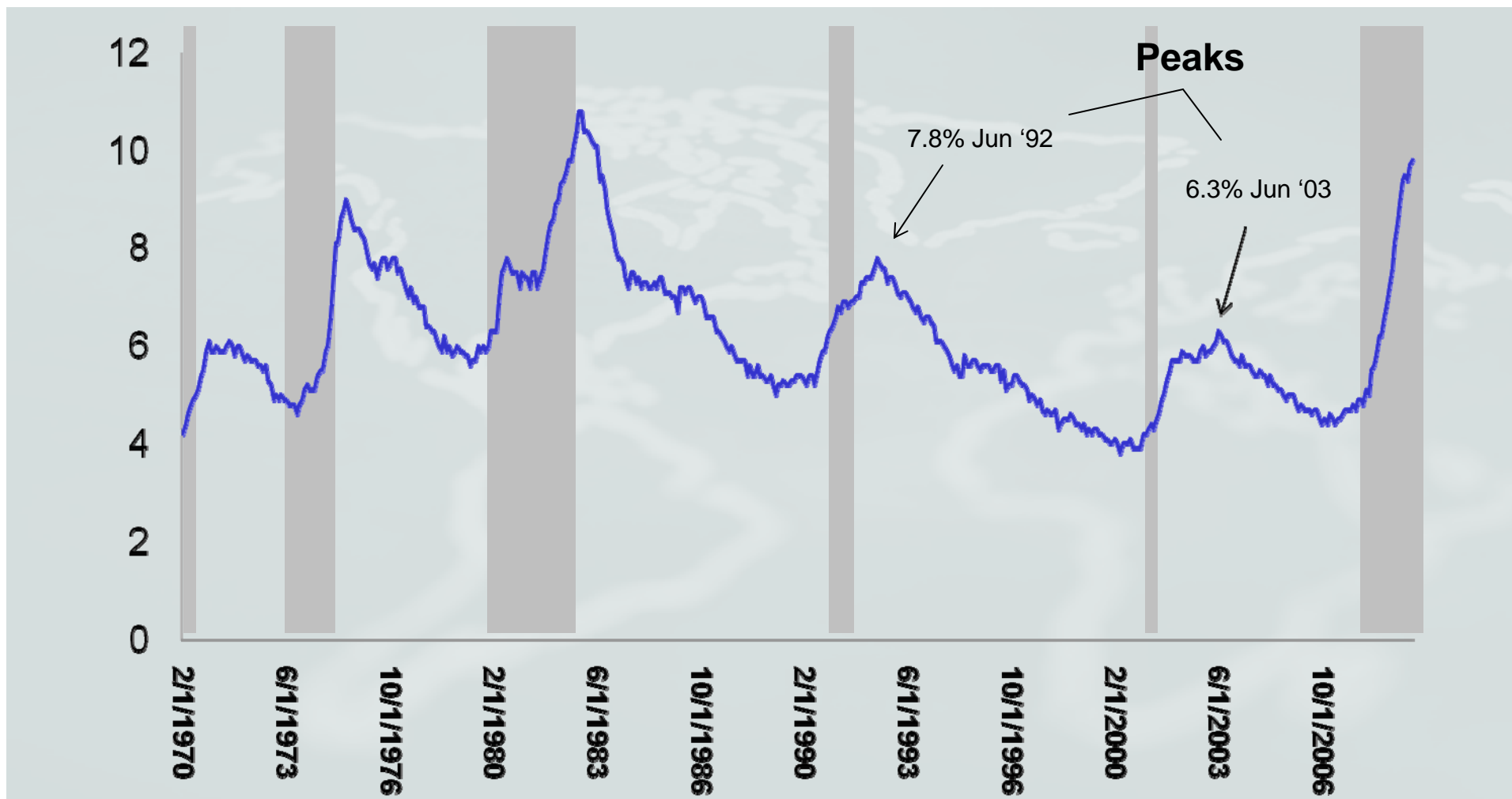
Exports?

- Falling

How much growth without government?

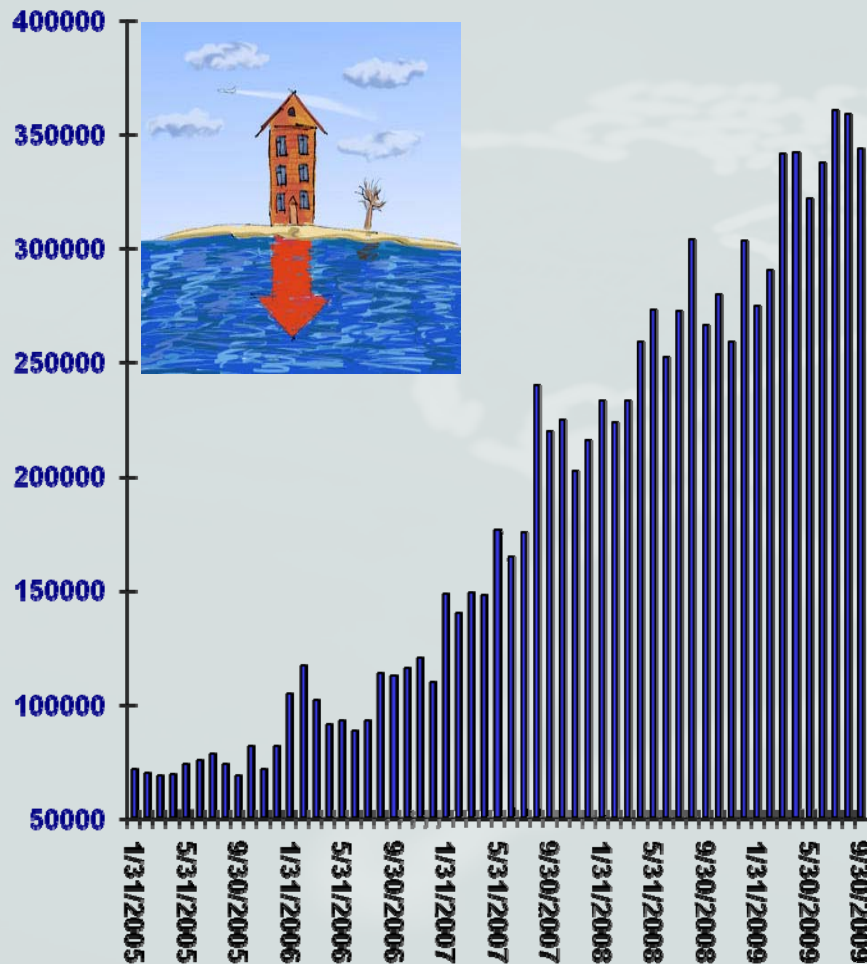


# When recessions end ... job losses continue



US unemployment rate; %  
Grey bars are official recessions  
Department of Labour

# US home foreclosures: Still rising



3Q 2009 foreclosures: 1,062,000  
a record; Sept alone, 343,000

- Down only slightly from July peak
- 1 in 5 mortgage holders with negative equity
- Pent-up listings will keep homes coming to market, restraining prices

Not just about subprime

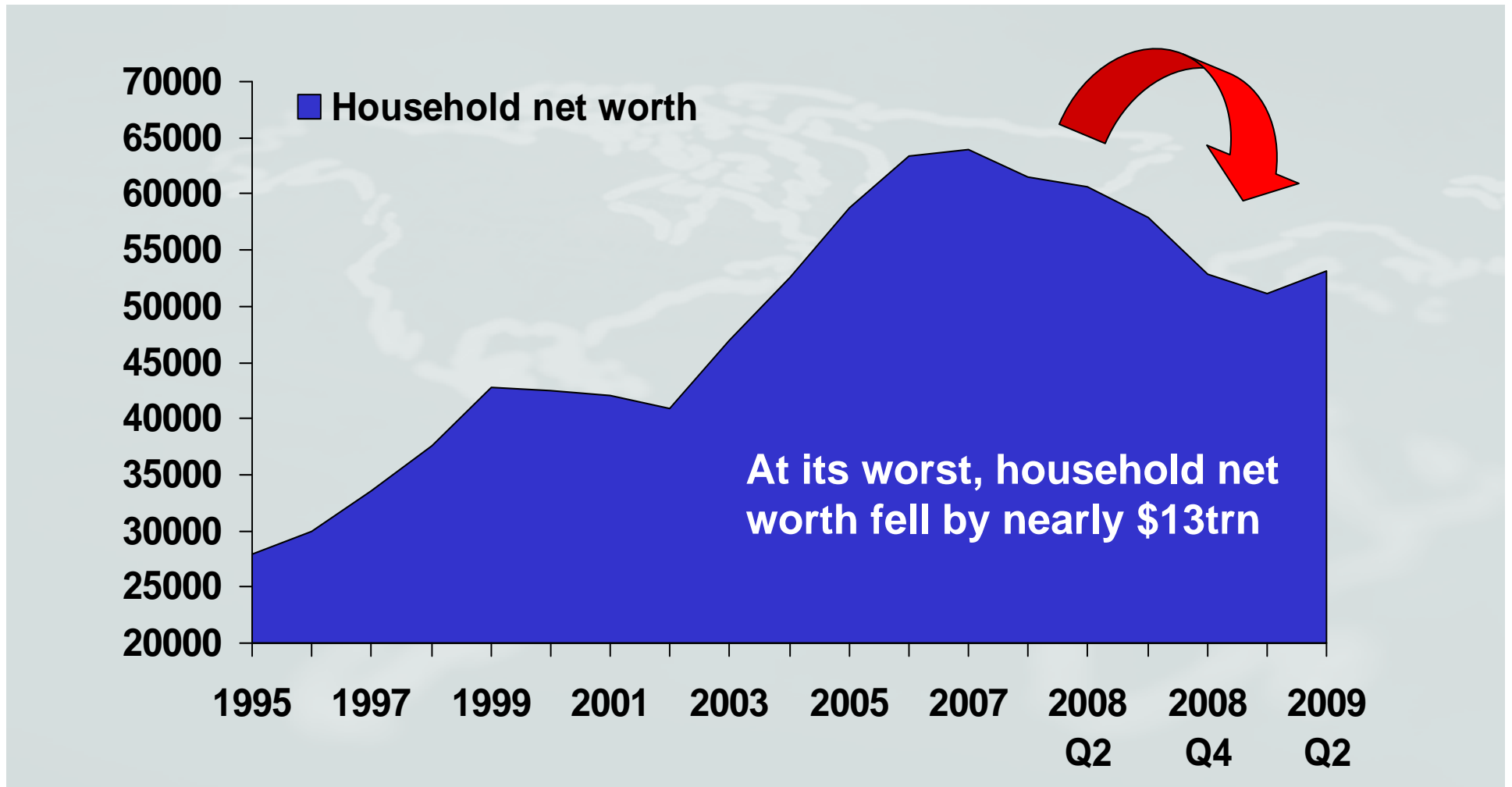
- Prime loans also souring
- More than 5% delinquent; rising

Nationally, 11% of mortgages  
delinquent or foreclosed

Foreclosures, number

Source: Realty Trac

# Net worth took a beating



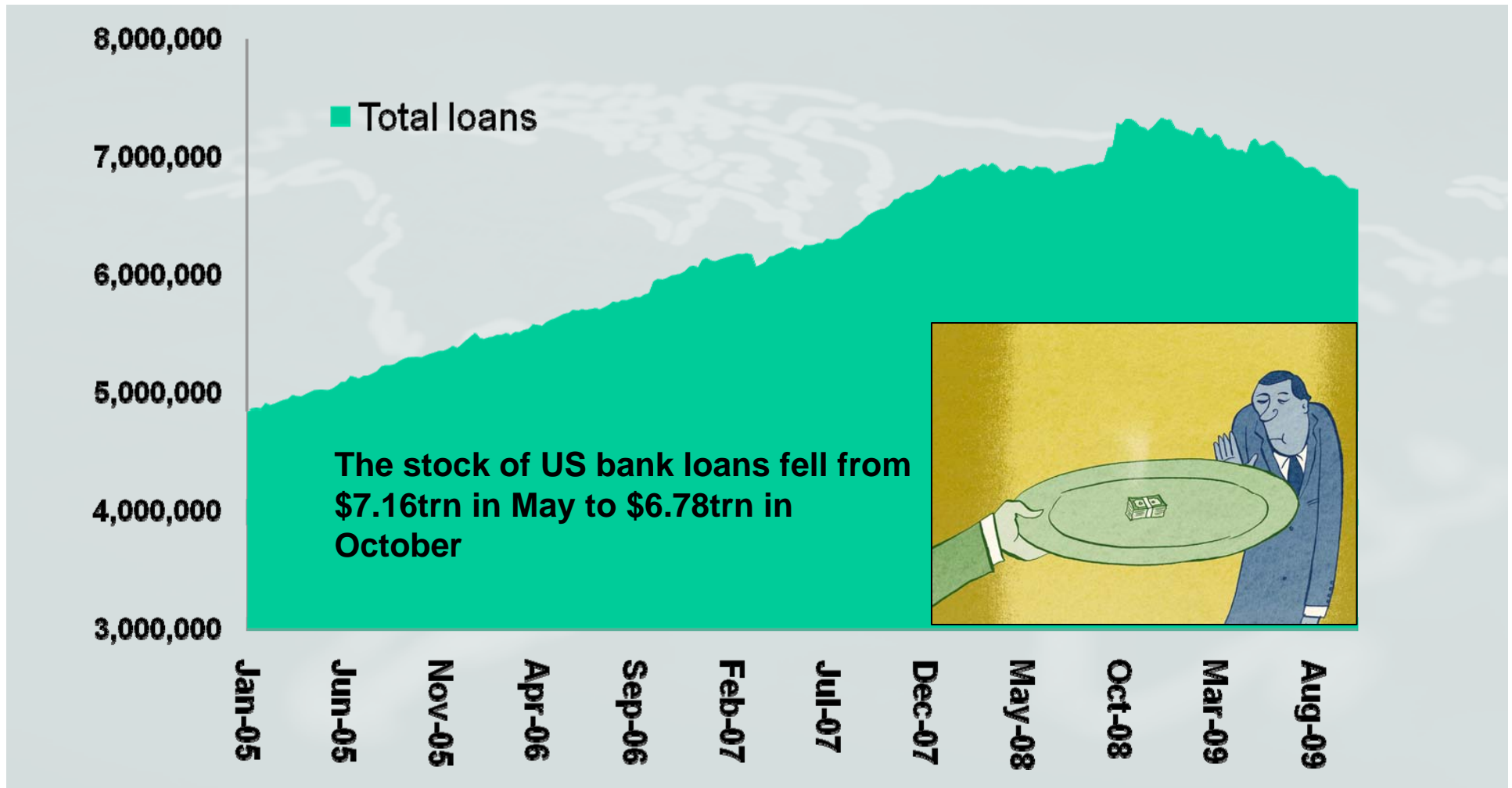
US\$ bn

US Federal Reserve: Flow of Funds report

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# Brother, can you spare a million?



Loans and leases in bank credit; stock outstanding;  
US\$bn  
Source: Federal Reserve

Europe: Struggling, too

# Europe: Sluggish recovery ...

**Euro zone:** Weak in 2010

## **UK/Spain**

- Years of post-bubble adjustment, less spending

## **Germany**

- Banks = Japan redux?

## **Italy**

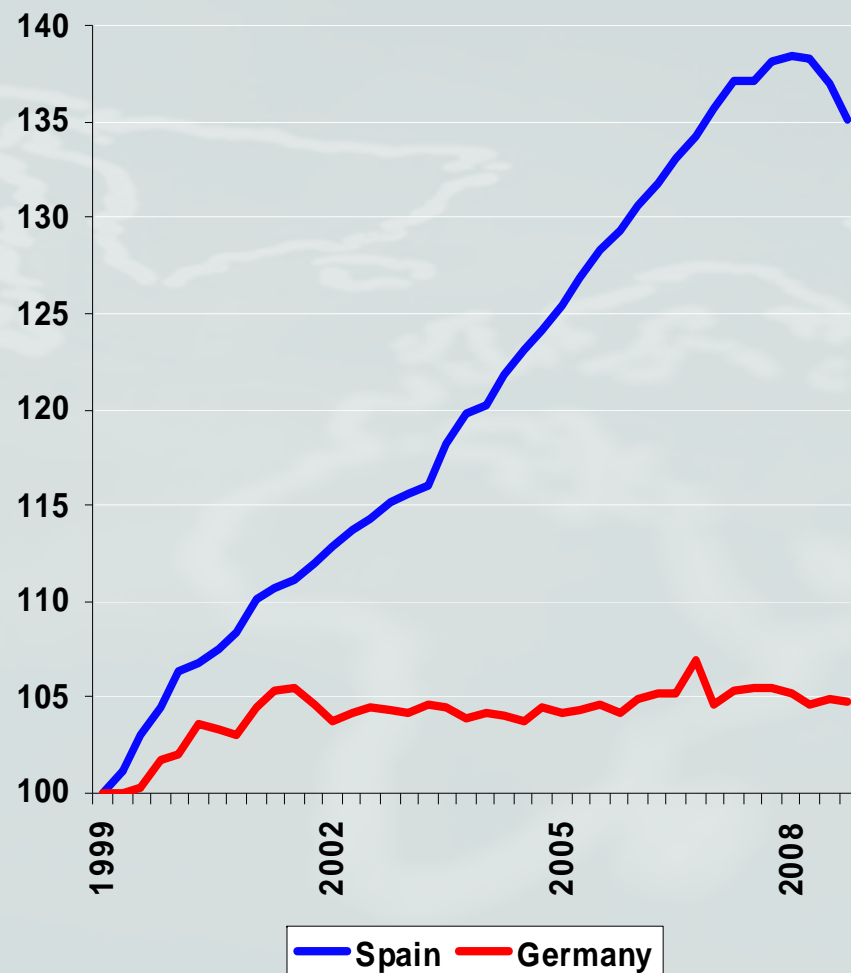
- Stressful fiscal reforms

## **Austria, Belgium, Sweden, NL**

- Big E Europe financial exposure

## **Greece, Ireland**

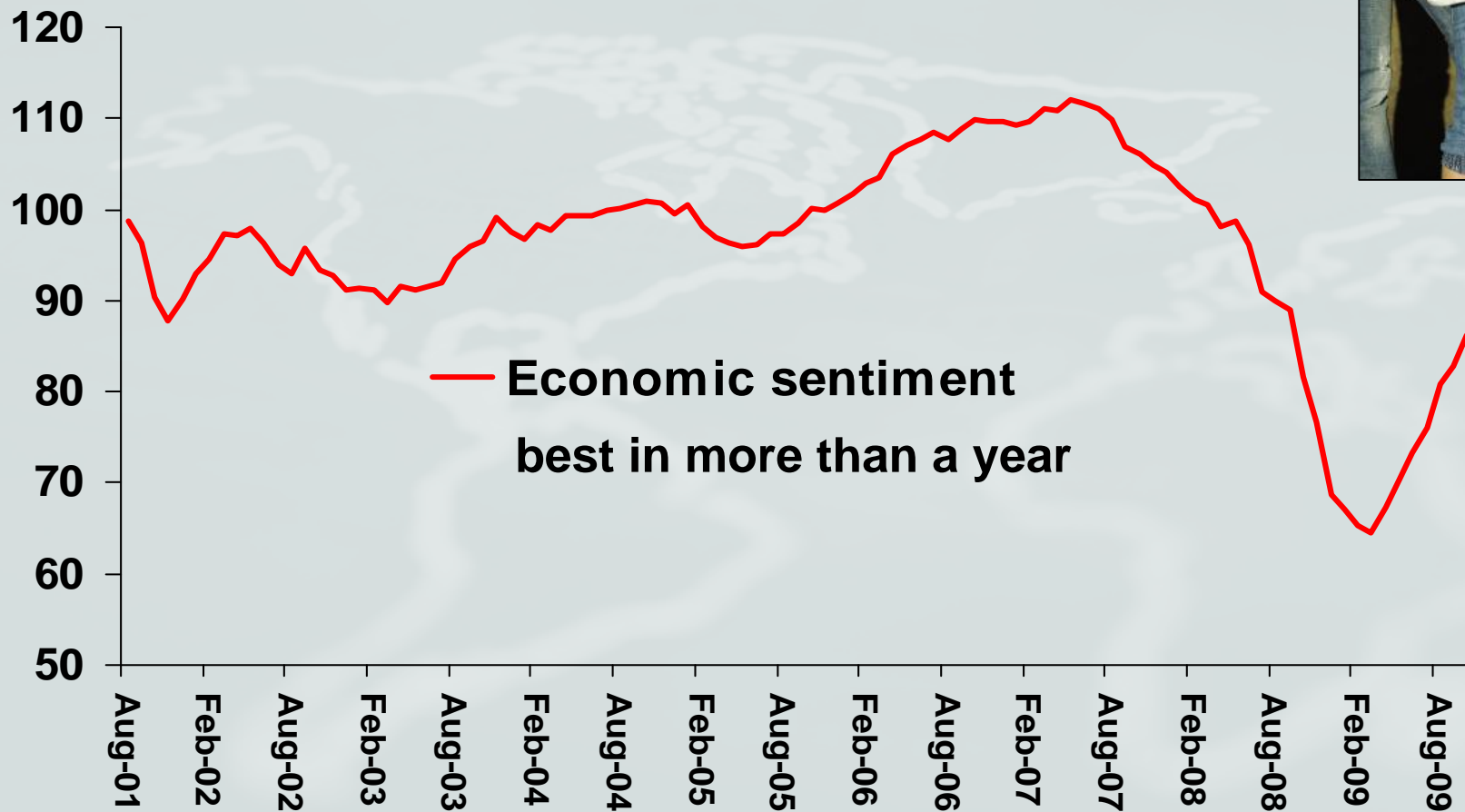
- Dire fiscal position



Spanish and German private consumption,  
1999 Q1 = 100.

Source: Economist Intelligence Unit, *CountryData*.

# ... but starting to feel better



Economic Sentiment Indicator  
Source: European Commission

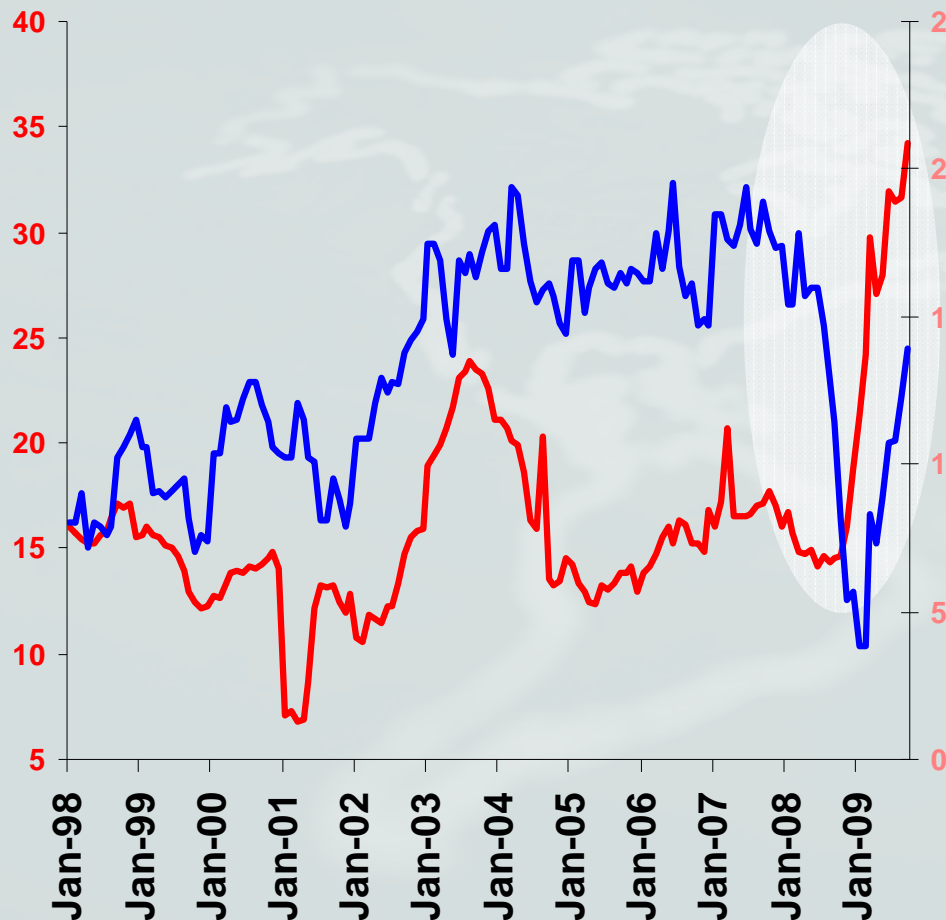
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China: How sustainable?

# China: Muscle-flexing ... but on steroids?



China to hit its 8% GDP target in 2009, but a domestic story

Lending, investment rising quickly; retail sales, car sales up

Stock and property bubble reflating?

Some policy tightening looming?  
Fiscally still in a strong position

Longer-term concerns over asset quality at banks

Needs a new growth model  
• But will they get one?

Renminbi loans; % change, year on year. RED LHS.  
Industrial production: % change, year on year. BLUE RHS.  
Source: Haver Analytics.

# Most of Asia faring well

But government stimulus is carrying much of the load

- Thailand, Vietnam, S Korea, Japan all with fiscal expansions of more than 5% of GDP

Exports also helping, but less important than usual...

- ... because of weakness in US, EU, Japan and developed world

Asia: Still will be world's fastest growing region in 2010



**And the US dollar?**

# Dollapocalypse?



## Short-term bear

- ✓ Releveraging – risk appetite returns

## Medium-term bull

- ✓ Deleveraging—US \$ as safe haven
- ✓ Narrowing US current-account deficit
- ✓ Higher interest rates
- ✓ Euro zone extremely weak

## Long-term bear

- ✓ US fiscal decline; trillion \$ deficits
- ✓ Productivity growth slows
- ✓ Investors seek alternatives to US dollar—euro, Chinese RMB?

Source: JP Morgan.

**What does all this mean for the  
recovery?**

# What's changing for the better

## Strong numbers likely

- Inventory adjustment boosts growth
  - But tells you little about final demand
- World trade multiplier will lift exporters

## Policy is working, though slowly

- Stockmarket rally, low interest rates let banks recapitalise and households repair balance sheets
- Market stress indicators pointing in right direction
- Risk of another Lehman failure much reduced

## China is growing, but thanks to policy, not exports

- Lifting commodity prices for producers
- Demand providing some respite for Japan, South Korea *et al*



# Key points for the outlook

## Developed economies will remain sluggish

- US consumer is retrenching: **jobless recovery** awaits
- **No 2nd US fiscal stimulus**—growth fall-back in 2011
- **Living standards: no pre-crisis return until 2013**

## Rich world public finances under pressure

- **Higher taxes** will come, spending must be **cut**
- Demographic changes intensify; ageing Europe

## Bank recovery will be slow

- **Economic policy must remain**
- Economic recoveries after financial crashes are **prolonged**
- **Can banks really support a sustained recovery?**

## Will so much monetary/fiscal stimulus produce a new bubble?

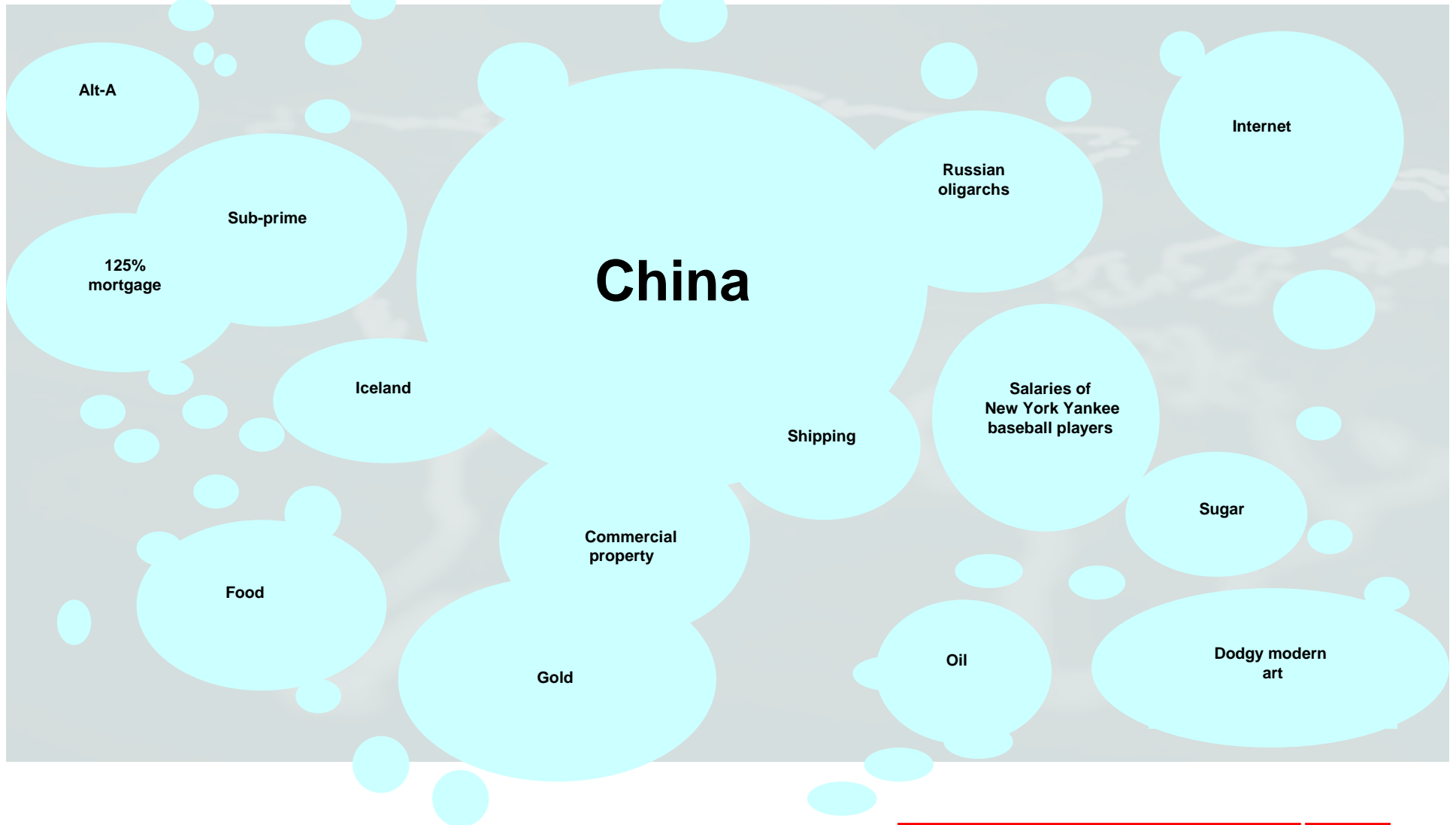
- **Inflation** cannot be ruled out; central bankers need an effective exit strategy
- The next crisis: a developed country sovereign or a big EM?



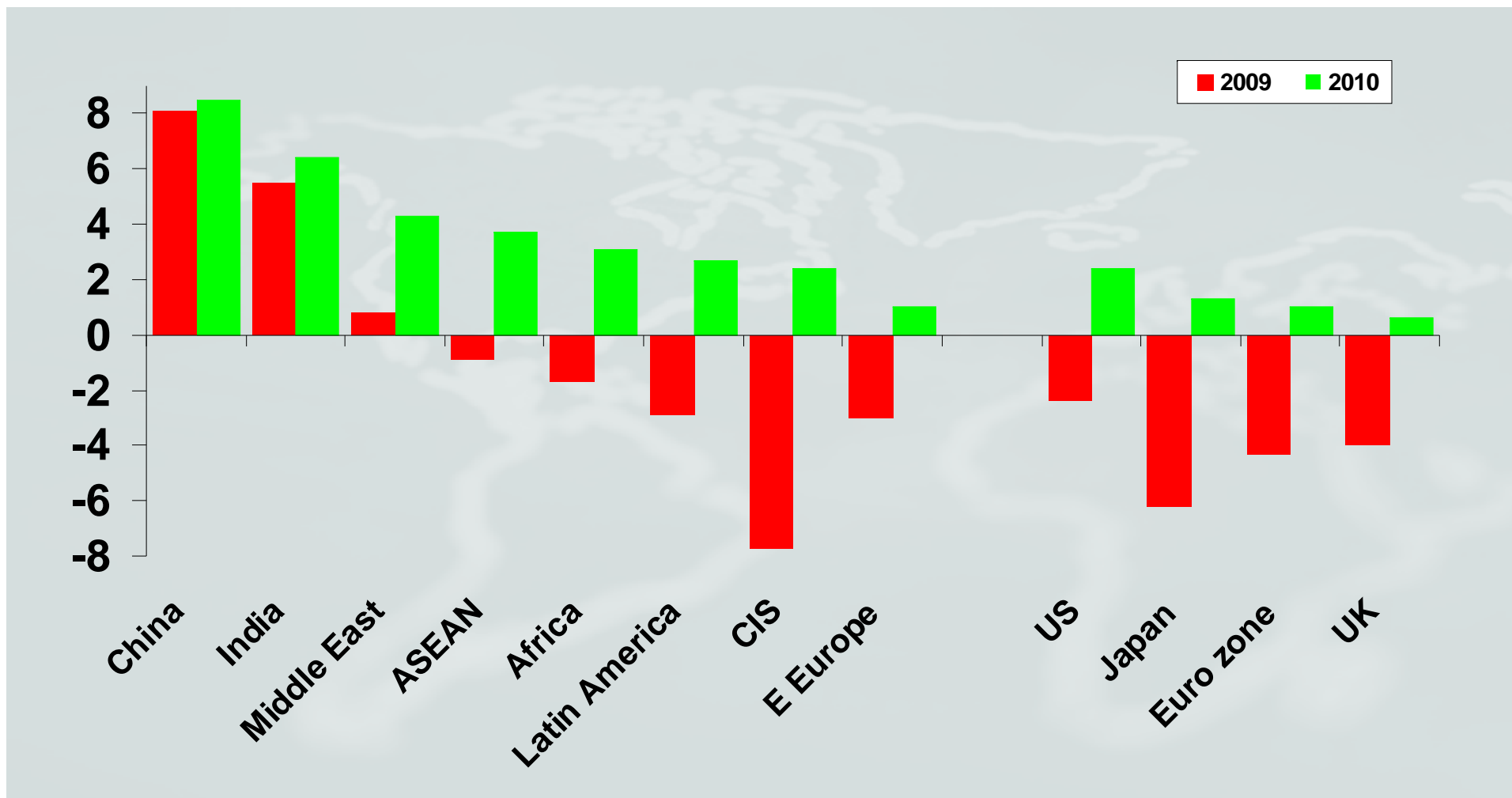


**Too bubbly in 2010 ???!**

# Bubble addiction?



# Short-term: Where's the growth?



Real GDP growth; % change, year on year. ASEAN=Association of South East Asian Nations. CIS=Russia, Ukraine etc.

Source: Economist Intelligence Unit, *CountryData*.

# More Information?

For information on Economist Intelligence Unit products and services, or to ask a question of one of our analysts, please contact:

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**Thank you**