

Is the world addicted to bubbles?

EIU's Quarterly Global Outlook webinar series

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Economist Intelligence Unit

The
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Today's Presenter



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Location: London, UK

Research and advisory arm of The Economist Group for business executives

650 analysts and industry specialists worldwide covering

- Analysis and forecasting for over 200 countries and territories
- Industry data and trends
automotive, consumer goods, energy,
financial services, healthcare, technology
- Market sizing
- Risk assessment



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

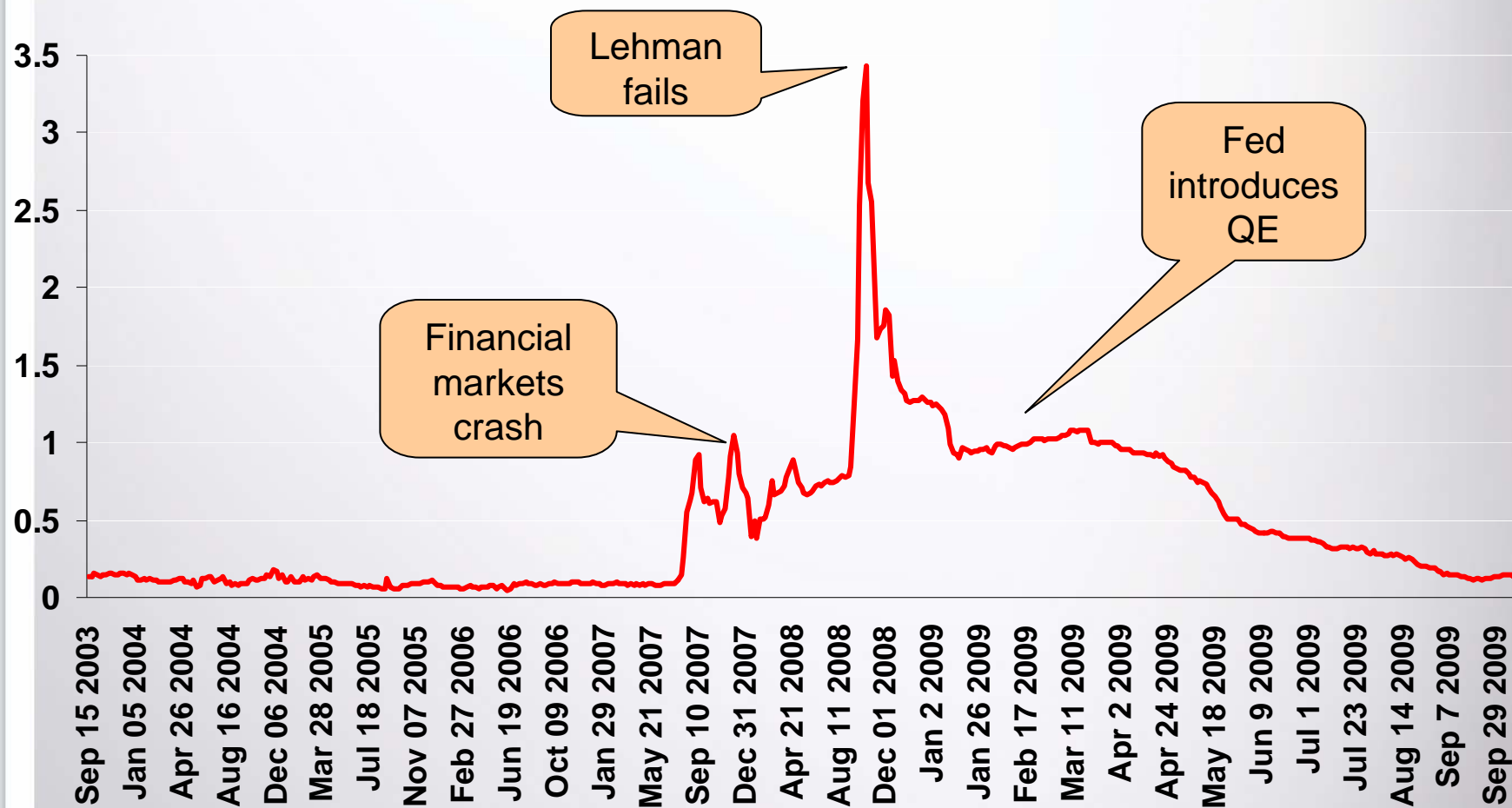
Borrowed-time theory: "W"

- Stimulus boosts economy at the cost of weakness later

Armageddon theory: "Q"

- Too grim to talk about

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

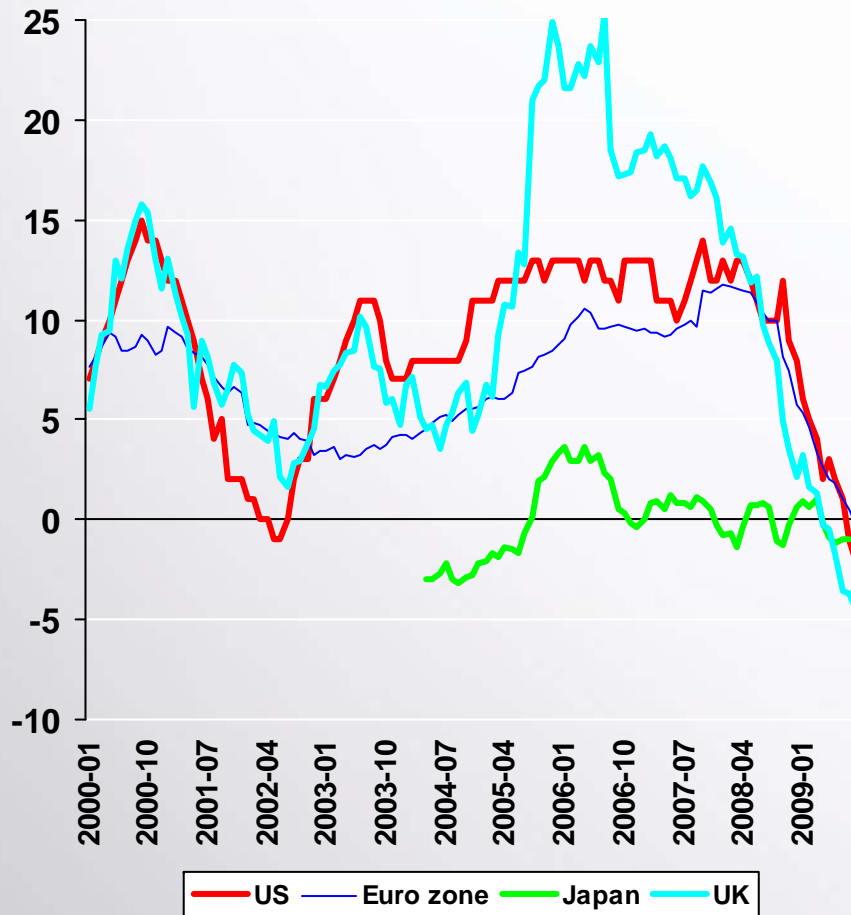


3-month LIBOR/3-month overnight index swap (OIS) spread, percentage points. **A higher spread denotes more market stress.** Sources: Haver Analytics; Economist Intelligence Unit.

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... but the banks still ail



US commercial bank loans; euro zone MFI loans; Japan private-sector lending. % change, year on year.
Source: Fed; Haver Analytics.

Some banks too big to fail

- State guarantees now explicit
- Moral hazard running riot
- "Heads we (banks) win, tails you (taxpayers) lose"

Sector distortions acute

- Bigger mkt share for survivors

Likely reforms

- Dynamic capital provisioning
- Living wills
- The return of Glass Steagall

Policy rates to remain low until late 2010, early 2011

US: A job-less, spending-less recovery?

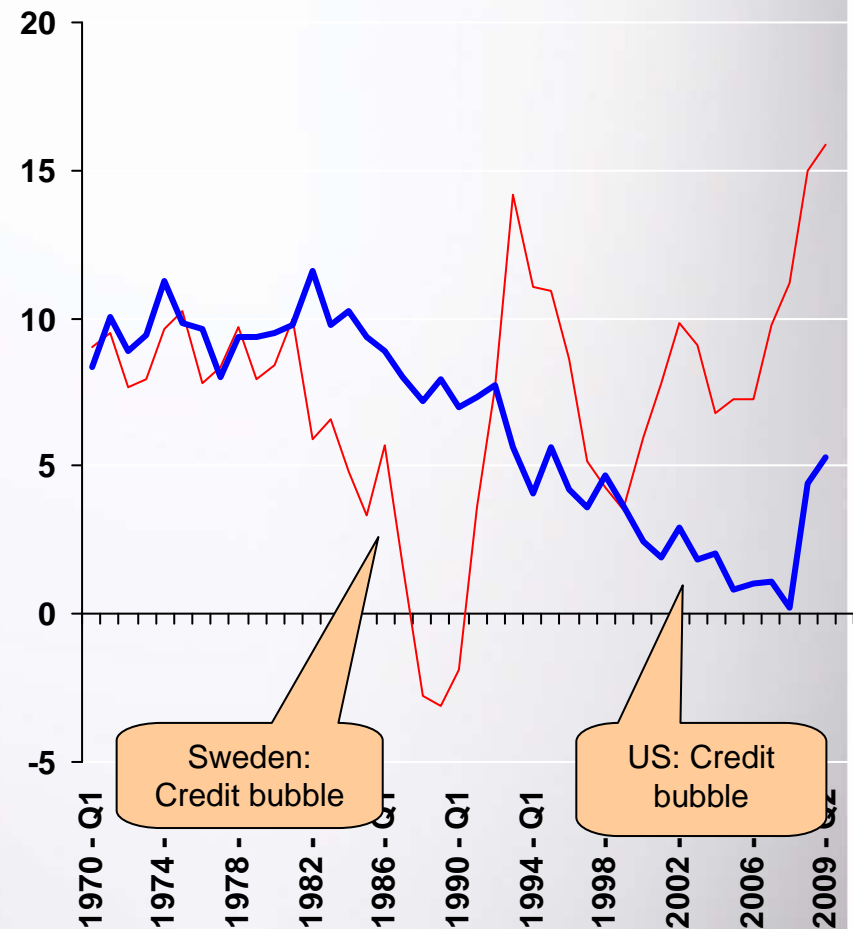
Q3—growth resumes, BUT

- Driven by clunkers, inventories
- Jobless rising, hours worked still falling, wages stagnant

US households remain over-stretched

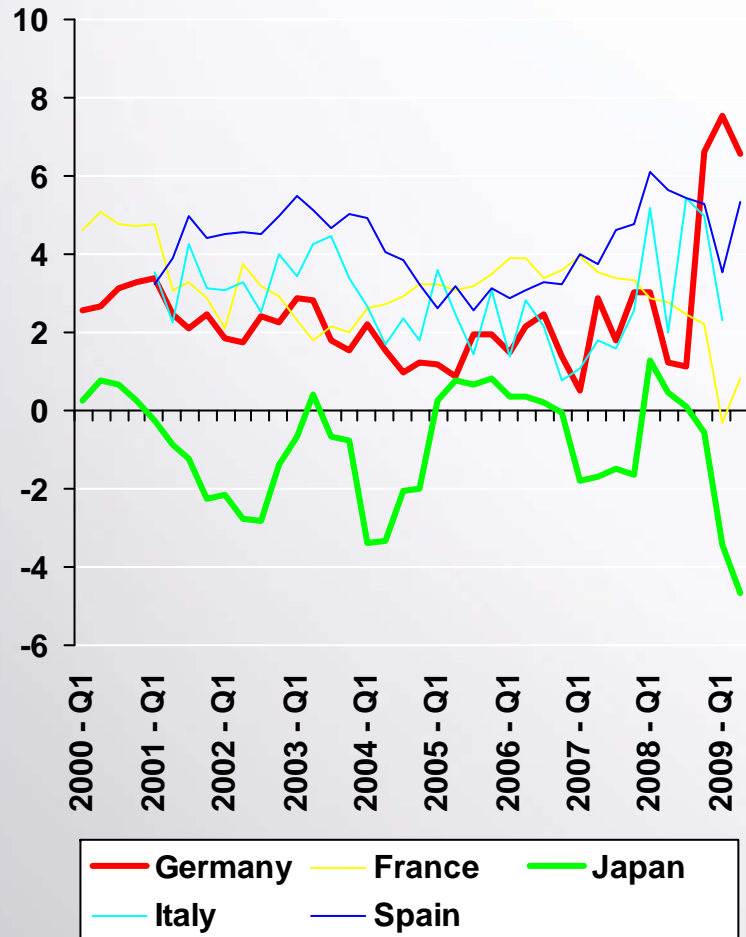
- Credit bubble has led to dramatic increase in liabilities
- Ageing will require greater savings
- Net wealth has fallen by 150% of annual disposable income

So—US savings need to rise further



Household savings rate, % of disposable income.
Source: OECD, *Economic Outlook*.

Euro zone: Recovery to lag behind the US



Germany benefiting from world trade thaw

- Industrial orders rise on month in May-Sep (but levels still low)
- New govt to cut taxes

BUT

- Double-dip likely in Germany as unemployment rises
- Watch prices—EZ's wages downwardly rigid Watch fiscal and economic strains among the weaklings—**Ireland, Greece, Spain, Italy et al**
- Strong euro headwind

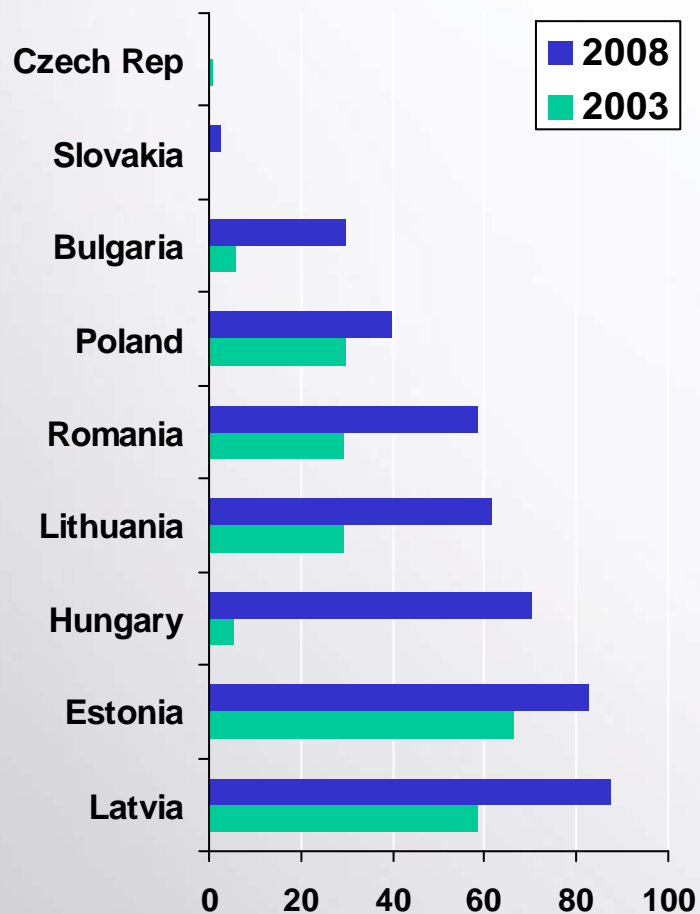
Wages. % change, year on year.

Sources: Eurostat; Ministry of Health, Labour & Welfare.

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East-Central Europe: Fragile



Foreign-currency mortgages, % of total.
Source: National Bank of Hungary.

Crisis puts the **EAST** back into Eastern Europe

High exposure to external shocks

- High trade/GDP ratios, banking systems foreign-owned, currencies overvalued

Stable now, but weak recovery in 2010

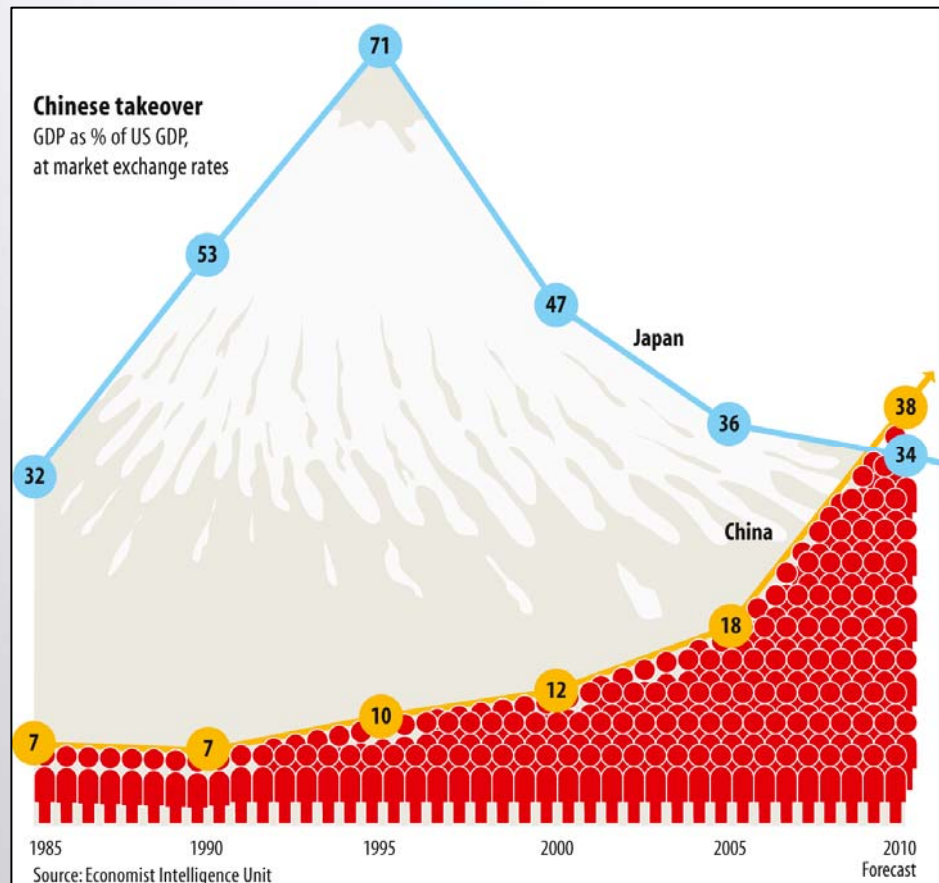
- High unemployment
- Tight credit
- Tepid FDI inflows

Watch the pegs in **Balts** and **Bulgaria**

Watch the politics—**Ukraine**, **Balts** etc

Russia recovering, but vulnerabilities exposed

Asia: The fastest growing region in 2010?



Economies rebounding, but government stimulus is carrying much of the load

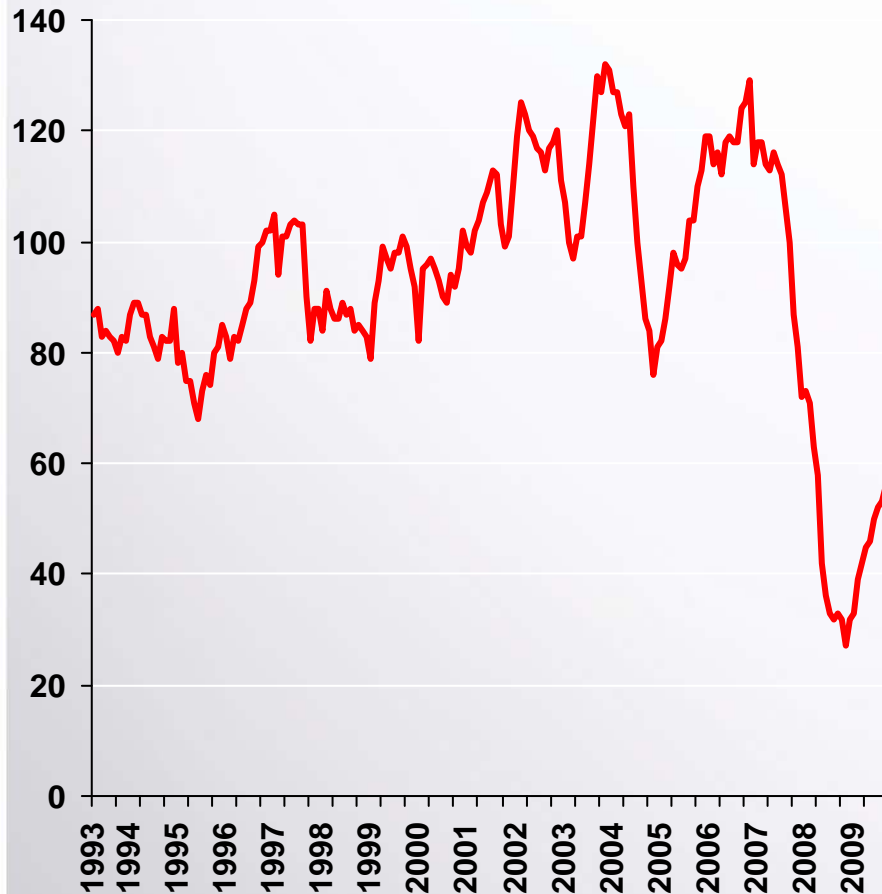
- Thailand, Vietnam, Korea, Japan all with fiscal expansions of more than 5% of GDP

Exports are growing again, but hampered by weak world trade

Asians need to boost domestic demand, but a long-term goal

While QE persists, upward pressure on currencies will remain

UK: First in, last out



UK bank mortgage approvals, '000s.
Source: Bank of England.

Supply lowest since 1978 (RICS)

- Some trapped in neg equity
- New mortgage rates are high

Affordability ratio still high

- Around 5x income, well above long-term 4.4 ratio

Mortgage availability constrained

- 2,230 deals available; cf 26,600 in Aug 2007
- First time buyer LTV ratio under 70%; no 125% loans

Banks won't lend until market picks up; market won't pick up without banks lending

The CIVETS: Six to watch for 2010



	Population (m)	GDP/head (US\$, PPP)	Inflation (%)	Growth (%)
C olombia	48.6	8,550	3.1	2.5
I ndonesia	243.0	4,210	5.8	5.1
V ietnam	87.8	3,130	8.7	6.0
E gypt	84.7	5,900	6.9	4.8
T urkey	73.3	12,410	6.8	3.0
S Africa	49.1	10,400	6.1	3.1

Forecasts are for 2010.

Source: Economist Intelligence Unit, *CountryData*.

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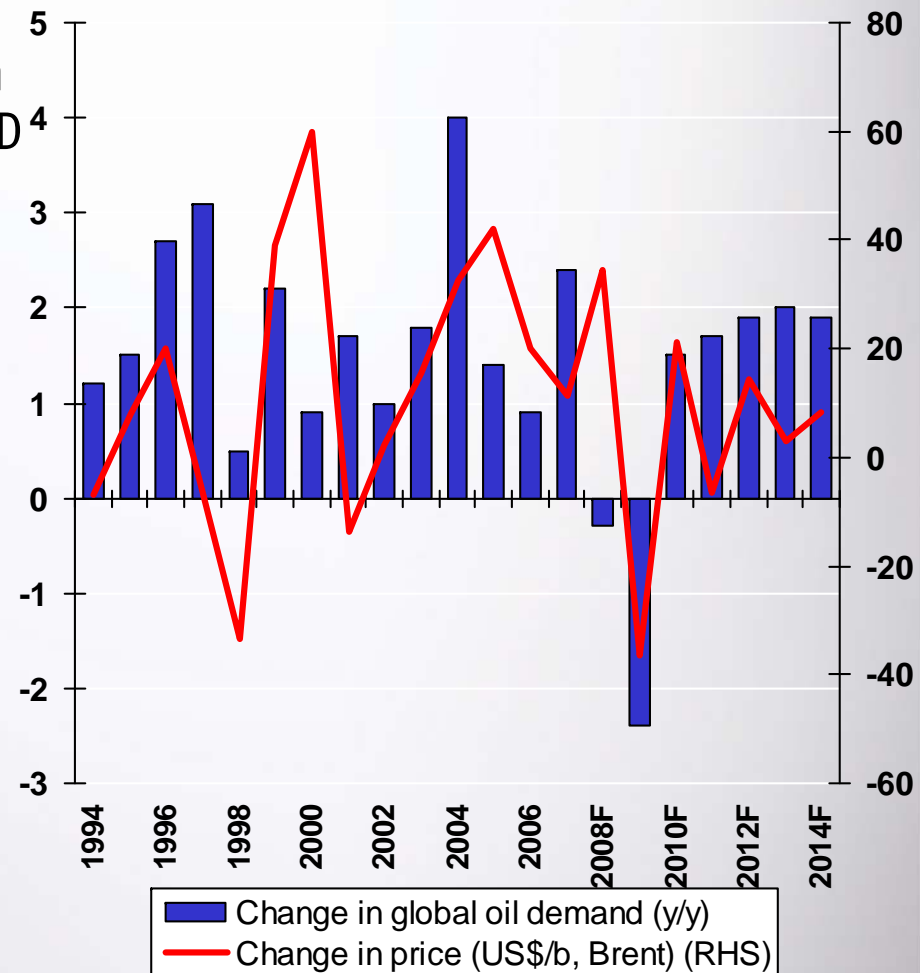
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Oil: No risk of shortfall in supply

- Global demand growth to remain subdued, constrained by weak OECD consumption
- OPEC has at least 6m-7m b/d spare capacity
- Global stocks are high

BUT

- Optimism about recovery
- Weak US dollar, low global interest rates makes oil an attractive investment
- Strong growth in demand in EMs

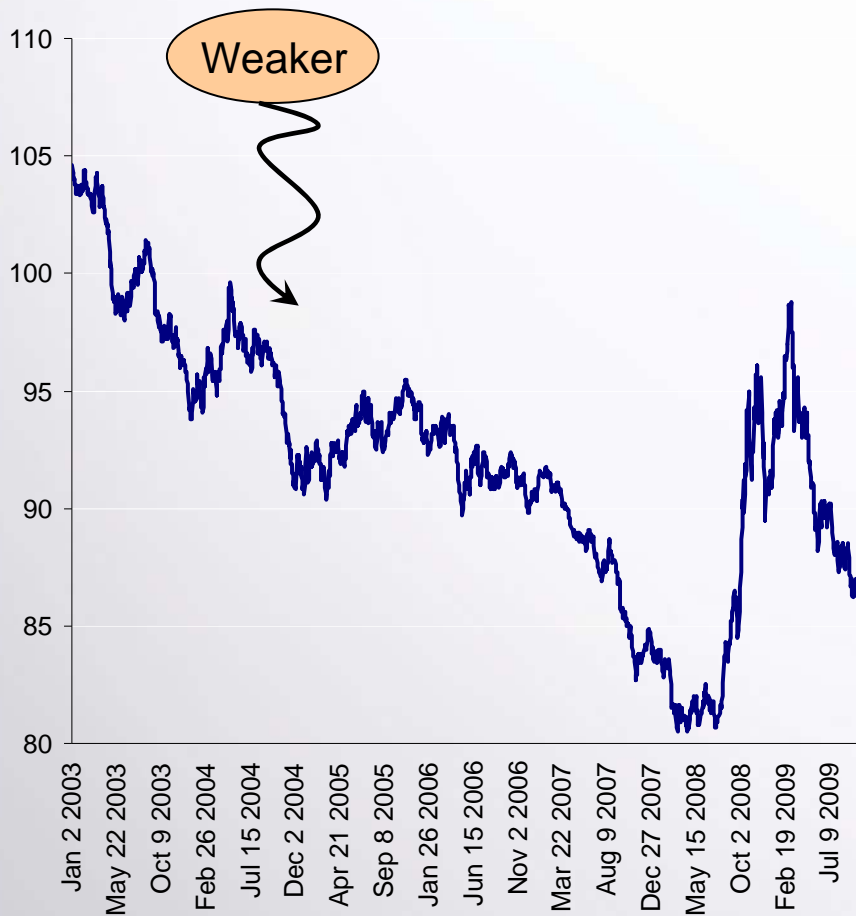


Sources: IEA; Economist Intelligence Unit forecasts.

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Currencies: A parade of the ugly sisters



US\$ as the new yen

- Fed-sponsored carry trade
- Em markets overheating risk

Fed and Asian intervention likely in event of a US\$ collapse

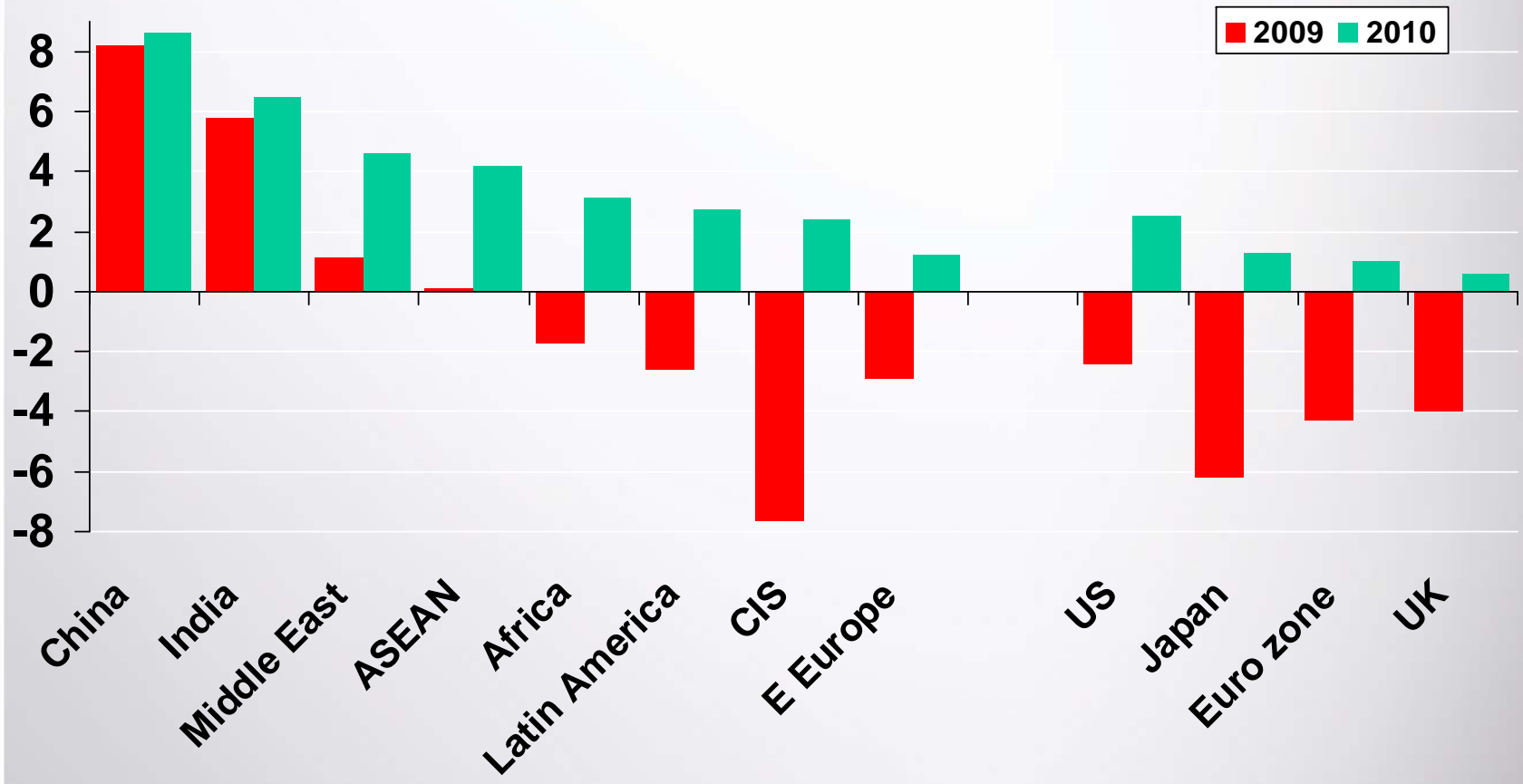
- Currency pegs/links putting adjustment pressure on the euro
- Rising commodity prices=imported inflation

Narrowing interest-rate differential (US rates to rise in Q3 10, while ECB holds)

2010: Av: US\$1.42:Euro1

2011: Av: US\$1.40:Euro1

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*.

Bubble addiction? Bubble addiction?

Alt-A

Sub-prime

125%
mortgage

Iceland

Food

Property

Gold

China

Shipping

Metals

Russian
oligarchs

Footballers
+ their
wives

Oil

Internet

Dubai

Dodgy modern
art

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VUCA—the new normal

Some strong numbers are likely in coming quarters

- Inventory adjustment boosts growth, but tells you little about final demand
- World trade multiplier will lift Germany and other exporters

Policy is working—albeit sometimes slowly

- Stockmarket rally, low interest rates allow the banks to recapitalise and households to deleverage their balance sheets
- The risk of another Lehman-style failure has been reduced

But is this the start of a new age of uncertainty?

- **Imbalances** persist. The next crisis—a developed country sovereign or a big EM?
Will Dubai be repeated—in Greece? Ireland? Italy? Or Spain?
- How will policymakers respond—the **ammunition is already used up**

Questions and Answers

More Information?

Data and analysis from today's presentation were taken from the Economist Intelligence Unit's country analysis and forecasting services. For more information on these services and other EIU capabilities, including risk assessment, industry trends, and economic data, please [click here](#).

Have a question for our country analysts or industry specialists? Please contact:

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