Global economic outlook

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USA

Strong job market

- Full employment
- Employment rising faster than needed to absorb new entrants into the labor force
- Wage growth starts to accelerate

Average hourly earnings % change

Source: MACROBOND

Unemployment Rate
Percent

Non-Farm Payroll Employment
Percent Change Over Year-Ago Level

Source: US Federal Reserve
USA

Consumer spending might become constrained

• Spending fueled by job growth, improved cash flow, access to credit

• Income decelerates

• Consumers retain strong spending growth through borrowing, reduced savings.

• Subprime lenders start to boost loan loss reserves
USA
Trade is driving growth

• Overseas growth is accelerating, boosting demand for US exports

• The value of the dollar has fallen in the past year, boosting export competitiveness

• Protectionist actions represent a threat to strong exports

Trade-weighted dollar exchange rate
January 1997=100

Source: Federal Reserve/Haver Analytics
USA
Inflation, expectations, and consequences

- Core inflation has decelerated, but expectations of inflation have increased
- Wages are starting to accelerate
- The Fed has started to raise rates
- Bond yields rose after tax cut

Expectation of five year inflation
The Fed and its impact

- Fed’s job is to target both inflation and employment. We are at full employment and inflation is starting to rise
- The tax cut will stimulate an economy already at full employment
- Expect the Fed to continue tightening

Federal Funds Rate

Yield on ten year Treasury bond

Source: MACROBOND
USA
Administration fiscal policy

Tax reform:

• Cuts corporate rate, boosts after tax profits
• Temporary 100 percent expensing of investment will temporarily boost investment
• Lower household rates will boost consumer spending temporarily
• Increase in budget deficit, especially if cuts are made permanent. Might lead to tighter monetary policy, slower growth later on.
• Tax reform is meant to boost investment, which would help productivity. Yet many countries have low tax rates and slow productivity growth. Companies have low borrowing costs, lots of cash, and profits are strong.

Budget Deficit as Share of GDP
## USA
### Administration trade policy

<table>
<thead>
<tr>
<th>Policy</th>
<th>Impact</th>
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<tbody>
<tr>
<td><strong>Withdraw from TPP</strong></td>
<td>• Retain tariffs on 18,000 traded goods</td>
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<td>• Hurt Japan’s ability to implement structural reforms</td>
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<td></td>
<td>• Reduce leverage with China</td>
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<td></td>
<td>• Enhance China’s geopolitical footprint</td>
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<td><strong>Withdraw from NAFTA</strong></td>
<td>• Revert to WTO tariffs between Mexican and US</td>
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<td></td>
<td>• US-Canada trade reverts to old free trade deal</td>
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<td></td>
<td>• North American supply chains to be restructured</td>
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<td></td>
<td>• Uncertainty about whether US Congress must agree</td>
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<tr>
<td><strong>Impose tariffs on China</strong></td>
<td>• Raise prices on US imports from China</td>
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<td>• Divert trade to other countries</td>
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<td>• China retaliates, hurting US exports</td>
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<td>• Trade volume declines, economic growth decelerates</td>
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What about the next downturn?

- Recoveries don’t die of old age, but this one is quite old

- Recessions come about due to:
  - Fed policy tightening
  - Sharp rise in commodity prices
  - Popping of asset price bubble
  - Stress in financial markets

- What current events might eventually lead to recession?
  - Fed tightening
  - Stress in financial markets
  - End of asset price bubble
## The rest of the world

### Growth in major economies

<table>
<thead>
<tr>
<th>Country/region</th>
<th>Outlook</th>
<th>Risks</th>
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</thead>
<tbody>
<tr>
<td>Eurozone</td>
<td>• Growth accelerating</td>
<td>• High unemployment reduces political support for structural reform</td>
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<tr>
<td></td>
<td>• Inflation low</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Monetary policy easy</td>
<td></td>
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<tr>
<td></td>
<td>• Growth decelerating</td>
<td>• Brexit could lead to reduced inbound investment</td>
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<tr>
<td></td>
<td>• Inflation high</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Policy uncertainty</td>
<td></td>
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<tr>
<td>UK</td>
<td>• Growth stabilizing</td>
<td>• Too much debt could lead to financial difficulties</td>
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<tr>
<td></td>
<td>• Inflation rising</td>
<td>• Lack of significant reforms</td>
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<tr>
<td></td>
<td>• Property investment strong</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>• Growth stabilizing</td>
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<td></td>
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<tr>
<td></td>
<td>• Property investment strong</td>
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</tr>
<tr>
<td>Japan</td>
<td>• Improved growth</td>
<td>• Very poor demographics</td>
</tr>
<tr>
<td></td>
<td>• Very low inflation</td>
<td>• Deflationary psychology</td>
</tr>
</tbody>
</table>
Where are there opportunities for growth?

• Countries with:
  • Favorable demographics
  • Open markets
  • Strong institutions
  • Productive investment
  • Innovation and entrepreneurship
Where are there opportunities for growth?

Half of the countries scoring best on female enrollment have Muslim majorities

Females as % of all students enrolled on Science, Engineering, Manufacturing and Construction courses (45% or more, compared with G7)

- Caymans
- Myanmar
- Brunei
- Barbados
- Kuwait
- Tunisia
- Suriname
- Antigua
- Grenada
- Qatar
- Oman
- Algeria
- Italy
- UK
- France
- US
- Canada
- Germany
- Japan

* Muslim majority countries

Source: Unesco (latest data for period 2009-2013)

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