GLOBAL ECONOMIC OUTLOOK
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Byron M. Shoulton
International Economist

ERA OF CHANGE

- **Trump election as U.S. President – begins new era in international relations.**

- **Change in U.S. attitude toward trade & globalization .**
- **Impacts decision making by multinationals, banks & cross border trade.**
- **Businesses and trading partners reassess relationships with U.S.**

- **High degree of uncertainty.**

Global Trends

- **Nationalism, protectionism join forces. Status quo of past 60 years questioned.**
- **U.S., UK foreign policy turn inwards. Political & economic norms challenged.**

  Nuanced reaction from abroad.

- **Rest of the world attempt to absorb & adjust to new realities.**

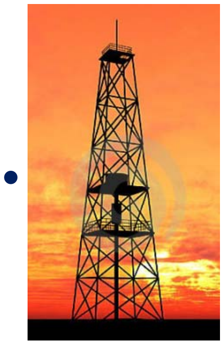
Global trends

- **U.S. recovery shows momentum. Trump stimulus to accelerate recovery.**
- **Business, consumer confidence at highest levels in 8 years. Yet guarded.**

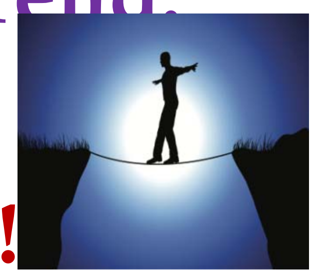
- **Job growth, stock market gains, support upbeat short-term expectations.**

2017-18 Outlook

- Asia – adjust to global changes.



- Rest of the world: watches cautiously.
- Oil producers recent optimism hit by glut of crude; prices slide.
- Weak global trade growth– 4 year trend. 2017 -18 outlook: uncertain.



- Middle East instability– High RISK!

Marketplace

- Commodity prices continue volatility.
- U.S. interest rates set to grow.
- Countries dependent on commodities [producers & exporters] foresaw brighter 2017.
- Revenue outlook now uncertain.

- Broader global demand projected to spur consumption, employment & growth.

Global growth outlook

- **2017 global GDP growth projected: 3.4%-3.5%**
  - ***Versus 3.2% 2016 GDP growth.***
  - **2017: developed economies grow by 1.6%.**
  - **Emerging economies – 4.2% growth.**
- **Demand in India – *not* replacing China's slowdown.**
- **Regions display considerable growth volatility.**

Trade Growth

- **2013-15: 3% global trade growth**
- **2017 forecast : 1.7% - 2%.**
- **Compare with 6% - 7% average trade growth over 3 decades.**
- **1985-2003 trade *grew* at twice the pace of global GDP.**
- **2009-15: trade barely kept pace with global GDP growth.**

Globalization questioned

- **Backlash against perception of unfair competition from foreign producers; cause workers in developed countries to revolt.**

- **Prevailing uncertainty: has potential to damage confidence.**

Free-Trade under fire

- **Traders *worry* new barriers to cross border trade could climb.**

- ***Hostility* to free-trade grows in west. Just as central banks abandon stimulus.**
  Status quo undermined?
- **Political *instability* hinders structural reforms in several countries.**

Outlook

- **Global industrial production <u>below long-run trend.</u> Could begin to change in 2017-18?**
- **Real economy stable - Central banks begin easing extraordinary accommodation in place since great recession.**
- **Spending on infrastructure: should help recovery in both developed & emerging economies.**
- **Emerging markets e.g. Brazil, Russia – *worse of recession appears ove*r.**

2017-18 Outlook

- Stronger global demand aids recovery in emerging markets & U.S.
- Public/private investment boosted.
- Production grows - eye on foreign market penetration.
- Trade focus more country specific. Less regionally driven.

USA

- Heightened global anxiety. Policies of new Administration alarms some allies.

- Fed sends message of rate hikes ahead.

- Global uncertainty – reinforces FED caution – only gradual rate hike can be tolerated.

- Fed seek sign of sustained global market confidence; sufficient to absorb tightening.
  NOT YET HERE?

USA

- **Core of economy - households - shows resilience.**

- **GDP growth 2.6%. *Employment picks up.***
- **Business investment likely to pick-up.**

- **Housing, construction sectors - *strong*.**
- **U.S. attracts capital inflows. Investment gets boost.**

USA

- **Corporate, government, household *spending picks up*. Military spending boosted.**

- **GDP growth - highest rate in 3 years.**
- **Strong dollar reflects investors shift to ‘safe’ currencies [dollar, yen].**

- **U.S. exports costlier; imports cheaper.**
- **Strong dollar weighs on profits of U.S. multinationals.**

UK exits EU

- **UK DECISION TO Exit EU – *begins 60-year reversal of European unity.***

- **EU ECONOMIC GROWTH HESITANT.**
- **Investments could SLOW.**
- **UK BUSINESS, JOBS – face uncertainty.**
- ***OTHER COUNTRIES COULD FOLLOW U.K.'S EXAMPLE - Risk to EU's future!***

Beyond Brexit

- UK's negotiations with EU to take 2+ years.
  - seek special trade, financial relationship.
  - wants full access to single market.
- EU unwilling to agree.

- Uncertainty undermines UK econo outlook. Road ahead unclear.
- London loses role as financial gateway to EU.
- UK pushes for more trade with rest of the world.

Euro-zone

- **Modest GDP growth outlook.**
- **Nationalism gains momentum in France, Germany, Denmark, Netherlands, Italy.**
- **Consumer/business confidence uneven.**
- **Unemployment 6% average.**
- **Inflation at 2% target.**

Beyond Brexit

- **German business confidence uncertain. 2017 GDP growth: 1.7%.**
- **Mixed signals about Germany's economy post-Brexit.**
- **Migration issue dominates Europe- Merkel faces intense pressure.**
  - **Europeans urges tougher EU stance against unfair trade – cheap Chinese imports.**

Europe

- *Uncertainty set off by BREXIT VOTE. Has negative medium-term impact on risks.*

- **EU economic stability: revolves around kind of agreement forged with U.K.**

- ***Confidence in banking sector wobbles.***

- **CHALLENGE:** ***Preventing more departures from E.U.***

- **KEY GOAL –** ***Preserve Union.***

China

- Economic growth of 6% 2017; 4.2% in 2018.
- Slowest pace in 25 years.

- Raw material producers: Australia, Brazil, South Africa, Chile, Peru, Colombia - adjusts to slower Chinese demand.
- Commodity prices struggle to recover - Chinese stockpiles act as counterweight:
- Overcapacity in steel, copper, aluminum.

China

- **Domestic growth – pumped by huge government stimulus.**
- **CHALLENGE:** ***How to defuse ticking debt bomb?***
- **High Chinese domestic debt load;**
  significant ‘shadow’ banking activity.
- **Expectation that Chinese government would <u>selectively</u> rescue troubled banks.**

China

- Chinese demand – remains mild.
- Real estate - major driver of growth in 2016. Surge in prices, activity, caused speculative excess.
- Government has tightened control of credit access to real estate.
- *Seeks soft landing from overheated real estate. Debt overhang being monitored.*
- Slowdown in housing sector expected to cut GDP growth by 1% in 2017.

Asia Readjusts

- Asia leads gentle global recovery.
- Asian economies readjust to lower Chinese demand.
- Increases trade with rest of the world.

  Hong Kong, Taiwan, Singapore, South Korea, Australia, Mongolia: experience decline in trade flows with China.

- Expands trade with Latin America, India, U.S., Canada.
- Southeast Asia – experience growth uptick.

Southeast Asia

- Indonesia, largest regional economy: GDP growth 5.2% – fastest pace in 3 years.
- Philippines GDP growth 7%; fastest pace in 3 years. New president anti-U.S. tilt.
- Vietnam, Malaysia, Thailand, Bangladesh, Cambodia – attracts new investments in manufacturing for export.

Credit Focus

- **High Need to '*KNOW*' customers – crucial.**
- **Weak economic performance – hurt financial health of many EM's companies.**
- **EM companies face difficulties meeting foreign debt obligations on time.**
- **Uptick in claims; slow payments.**

Russia

- Recession has been steep.
- Lack of access to Western capital – takes toll.
- Mild GDP uptick possible in 2017.
- Commodity dependent economy – suffers with weak global prices.

- Seek relief from U.S. & EU sanctions.
- Weak oil & gas prices – constrains growth.

Russia

- Trump-Putin alliance could ease tensions.
- Reset with U.S. possible?

Russia

- **Ukraine instability – source of continued unease.**
- **Potent force in Middle East; defender of Syrian regime; closer ties with Turkey, Egypt.**
- **Strategy to weaken U.S., Western influence globally.**
- **Seek to attract new foreign investment. Pays heavy price for aggression.**
- ***Ruble devalued 50%. Lending conditions tight.***
- ***Payment* delays plentiful despite comfortable FX reserves .**

Turkey

- **Country in crisis. Failed 2016 coup unleashed backlash by President Erdogan.**
- **Purges military, academia, banking, corporate, & religious community.**

- **Strains with U.S. & EU – perceived as less supportive of regime [in face of failed coup].**

Turkey

- **Economy reliant on foreign capital inflows to finance current-account deficit.**

  Country downgraded. Cost to access credit grows.

- **Relationship with West strained- tilt to Russia. Review of relationship under Trump, inevitable.**

- **Turkey's geopolitical importance should keep access to credit adequate.**

- **Sovereign & banking sector outlook revised to negative.**

Latin America

- **Changing political landscape.**
- **Commodity prices key to growth outlook.**
- **Spending on infrastructure & other investments key to recovery.**
- ***Region dependent on raw material exports for growth. Turnaround strengthens in 2017.***
- **Capital spending e.g. Brazil, Mexico & Colombia picks up.**

Latin America

- **LATAM consumers under pressure:**

  -hit by regional slowdown of past 3 years.

- **High unemployment, elevated inflation.**
- **Weak currencies; governments fiscal consolidation - erode purchasing power.**

• S/T outlook: 2017 imports & exports pick-up. Intra-regional trade, investments to aid recovery. Competitive exchange rates a plus.

Brazil

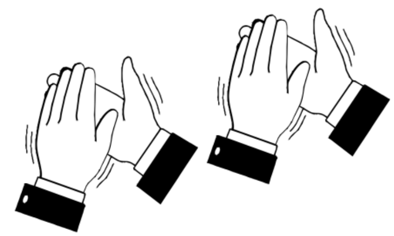
- **Political crisis eases; reforms by interim Admin takes form.**
- **Industrial production increasing - after 2-years of uninterrupted decline.**
- **Manufacturers invest again: capital goods imports up - 1st rise since 2014.**
- **High consumer, corporate debt; high interest rates – big challenges remain.**
- **High government fiscal deficit; low confidence in political class.**

Brazil

- IMF projects – private sector to grow 2%.
- Firms‘ stocks of unsold goods shrink. Goods in transit no longer falling.
- *New hiring not occurring; but layoffs slowed.*
- Consumer index rising. Industrial exports competitive due to weak currency.

Argentina

- In midst of policy change – Macri government receives initial applause from from creditors, investors.
- Pres. Macri lays firm foundation. Confidence gradually returns.



- SETTLED WITH HOLDOUT CREDITORS to 2001 sovereign debt default.

Argentina

- Creditors, banks consider taking Argentine risk again.
- Local exporters ship. Capital flows freely.
- Import restrictions, FX controls lifted.
- Country gains access to international capital markets once again!

Mexico

- **Nafta face renegotiation. Relations with largest trading partner (U.S.) tense.**

- **Exchange rate attracts new investments.**
- **Exports down 5% in 2016.**
- **80% of exports to U.S. – A concern.**

Mexico

- Trade agreement with EU will expand reach of Mexican producers.
- Lower production costs attract factory relocation from China, elsewhere.
- Mexico pursues pragmatic policies
  to avoid risk of recession, anti-trade backlash.

MENA

- Oil, gas producers – massive loss of income.
- ISIS threat multiplies risk. Governments focus on containing social unrest.
- Elevated sense of regional chaos: Libya, Egypt, Syria, Iraq, parts of Africa.
- Saudi: new leadership – sensitive to challenges to regime.

MENA

- Record government bond issues in 2016. Many more in pipeline.
- Funds used to offset revenue declines caused by lower oil, gas prices.
- Heightened state of political risks.
- Governments keen to maintain social spending – fear of political unrest; ISIS inroads!

Saudi Arabia

- GDP shrunk by 14.3% since 2014.
- 2016 international bond issue – oversubscribed to $50bn.
- Saudi entities – additional bond offers in pipeline, including Aramco's IPO.
- Companies struggle to cope in troubled economic environment.
- New leadership – sensitive to ISIS threat; internal dissent: motivation for OPEC deal.

Egypt

- **IMF, WB pushes subsidy cuts: food, fuel.**
- **New natural gas find offers prospect for energy investment inflows.**
- **Current account deficit grows: $18.7bn [up from $12.1bn], largely due to steady fall in exports.**
- ***Tourism arrivals - down.***

Egypt

- **Downgraded to *'very high risk'*.**
- **Economy kept afloat by aid from Gulf countries. $3bn World Bank structural adjustment program.**
- **Government of President Sisi – firm control over opposition Moslem Brotherhood.**
- **Need to attract FDI, manufacturing & tourists again.**
- **Tourism hit - major setback to recovery.**
  - **FX rationing continues.**
  - **Public sector dominates power, transport, heavy industry, insurance.**

Africa

- Nigeria, South Africa – examples of economies hard hit by commodity downturn.
- Mismanagement, corruption, weak leadership - overshadows opportunities.
- Lack of confidence – dominant.
- L/C's, secured payment terms, government guarantees preferred.

Global Forecast

- **Uncertainty –especially toward cross - border risks.** ***Deals take place anyway.***
- **U.S. RECOVERY GETS SPENDING BOOST.**
- **Abundance of capital – seeking higher yields globally.**
- **EMERGING MARKETS – attracts investment; helps stimulate recovery.**

Challenges

- Competition heats up: bankers, traders, exporters seek access to new markets.
- Reluctance to deepen exposure in some countries – being revised.
- Decline in trade – search for new business opportunities.

- Tendency toward secured payment

Sector Analysis

- **Steel, Aluminum, Iron ore, copper, silver, rubber – slow price recovery.**
- **Overcapacity in China. A challenge to recovery in prices.**
- **Demand growth for minerals, metals likely.**
- **Crude, petrochemicals, fertilizers: brisk competition. Glut?**

Red Flags

- **Rise of nationalism, protectionism, isolationism in U.S. & Europe.**
- **Shift after 60 years of open market advocacy. Anxieties abound.**

- **Advocacy against trade agreements – could weaken future global trade alliances.**

- ***U.S. support for NATO, traditional allies: Europe, Japan, S. Korea, Germany – face reassessment. U.S. demands greater sharing of financial burden.***

World of Changes

Conclusion

- **Dose of reality: a world of NEW risks.**
- **Trade flows could pick-up, despite anxieties over globalization/free-trade.**
- **Uncertainty, hesitation to invest – underscored by revolt against free-trade.**
  - **Confidence low. Will take time to improve.**

Conclusion

- Trade must take place – goods & services will cross borders even at slower pace; lower volumes.

- Take pains to identify risks. Understand how changes impact customers – only path to survival.
- Acceptable risks found in difficult markets; unacceptable risks found even in highly rated countries.

Conclusion

- **Trade, investment in LATAM-Central America: spurred by stronger mining activity 2017-20.**
- **Currency depreciation supports regional exports by industrial & intermediary manufacturers.**
- **Brazil, Mexico, Colombia to benefit. Intra-regional trade likely to gain momentum.**

Conclusion

- U.S. relationships around the world is tested.
- Credit availability: plentiful but undergoes stringent review.
- New investments and credit extension across borders – subject to need for clarity on new rules. Impact of new policies on trade, payments?

Bonus Countries

- **Canada – politically stable; new trade deal with EU; transparent market; reliable credit info; ease in doing business. Attracts foreign capital. Competitive currency vs. U.S.$. Easy access to credit.**

- **Israel – leading high tech innovation; well run economy; reliable credit info; ease of doing business. Strong U.S. relations under Trump. Attracts foreign capital.**

- **Ireland – Steady recovery. Access to EU, Adaptable workforce; increased application of technology. Potential for M/T growth; investment inflows. Ease in doing business. Politically stable.**

- **India – Reform minded government; vast underdeveloped market. Trainable workforce; ripe for technology transfers; investments. Huge potential. Long road ahead.**