

World Economy Heading for Another Period of Weakness

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DR. HOWARD NICHOLAS

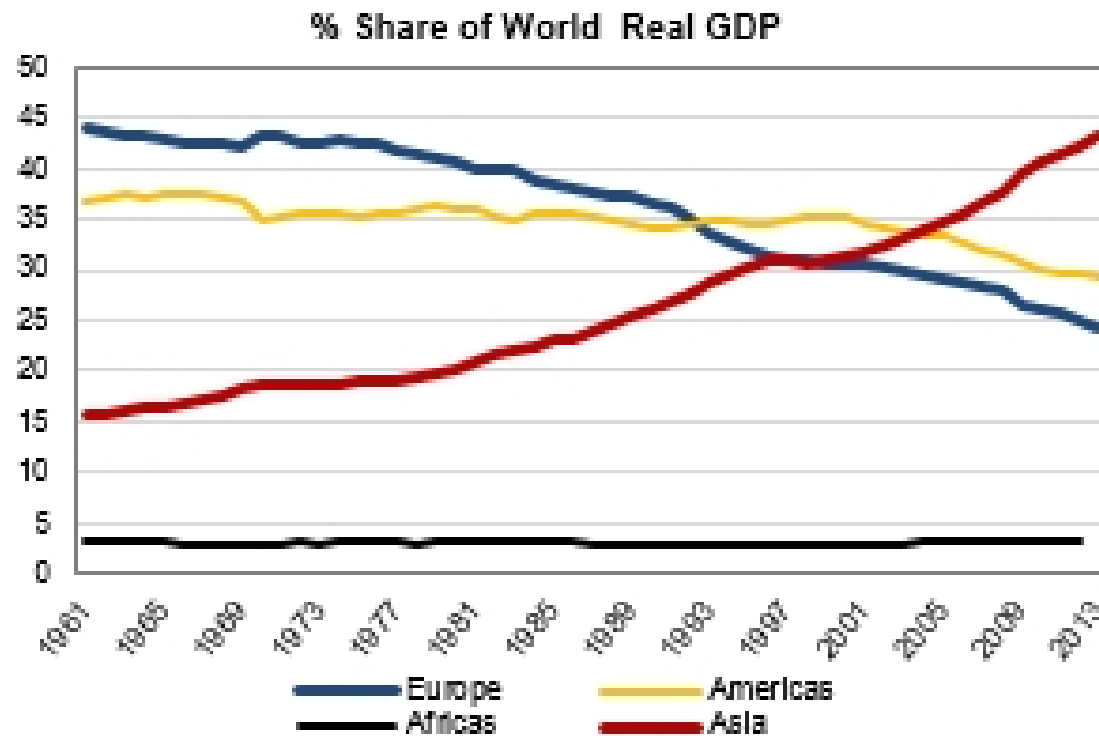
SENIOR LECTURER IN ECONOMICS,
ERASMUS UNIVERSITY OF ROTTERDAM,
THE NETHERLANDS

Understanding the Current State of Economy

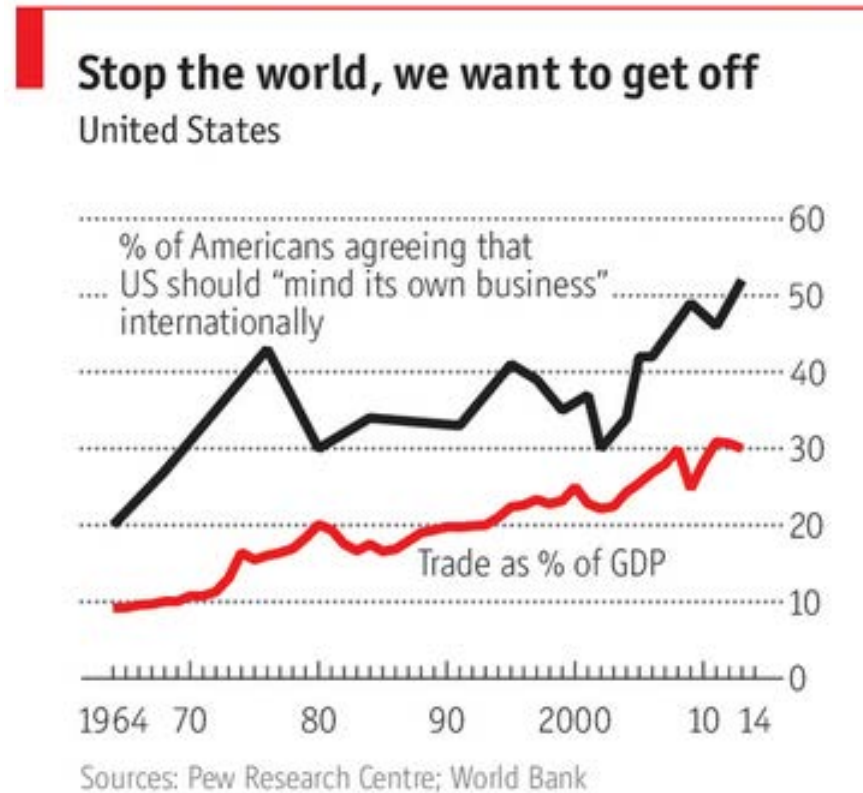
- Shift in **global economic power** from advanced to developing countries, particularly East and South Asian.
- **Business cycles.**

GLOBAL SHIFT IN POWER

Regional Shift in World GDP Share, 1961-2013



US becoming increasingly dependent on trade



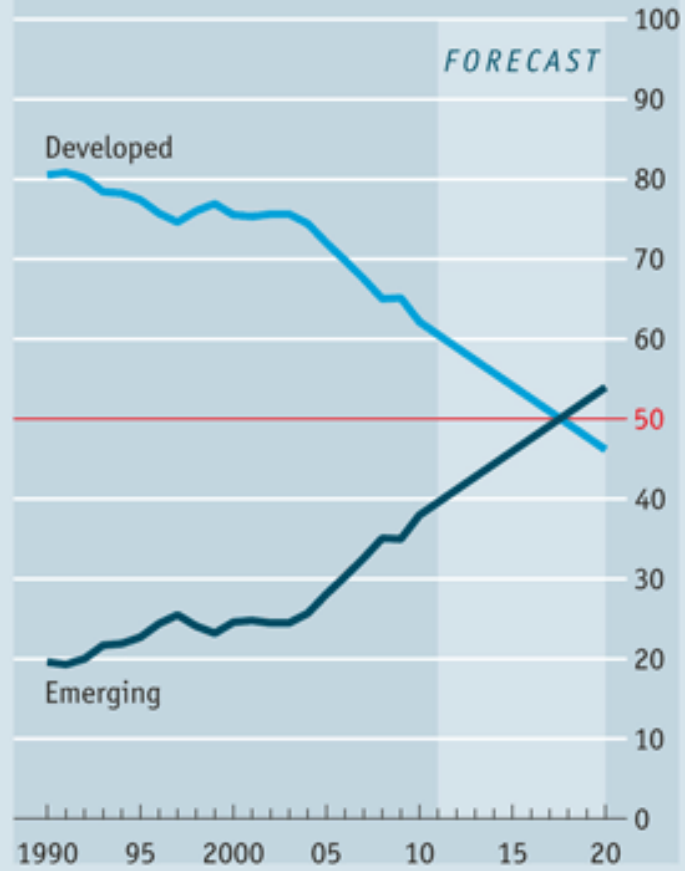
Shift in Shares of World GDP for China, India and Sri Lanka, 1980-2014

| | 1980 | 2014 |
|------------------|-------------|-------------|
| China | 2.3% | 16.3% |
| India | 3.0% | 6.8% |
| Sri Lanka | 0.12% | 0.20% |

Global balance

Economies' share of world GDP, %

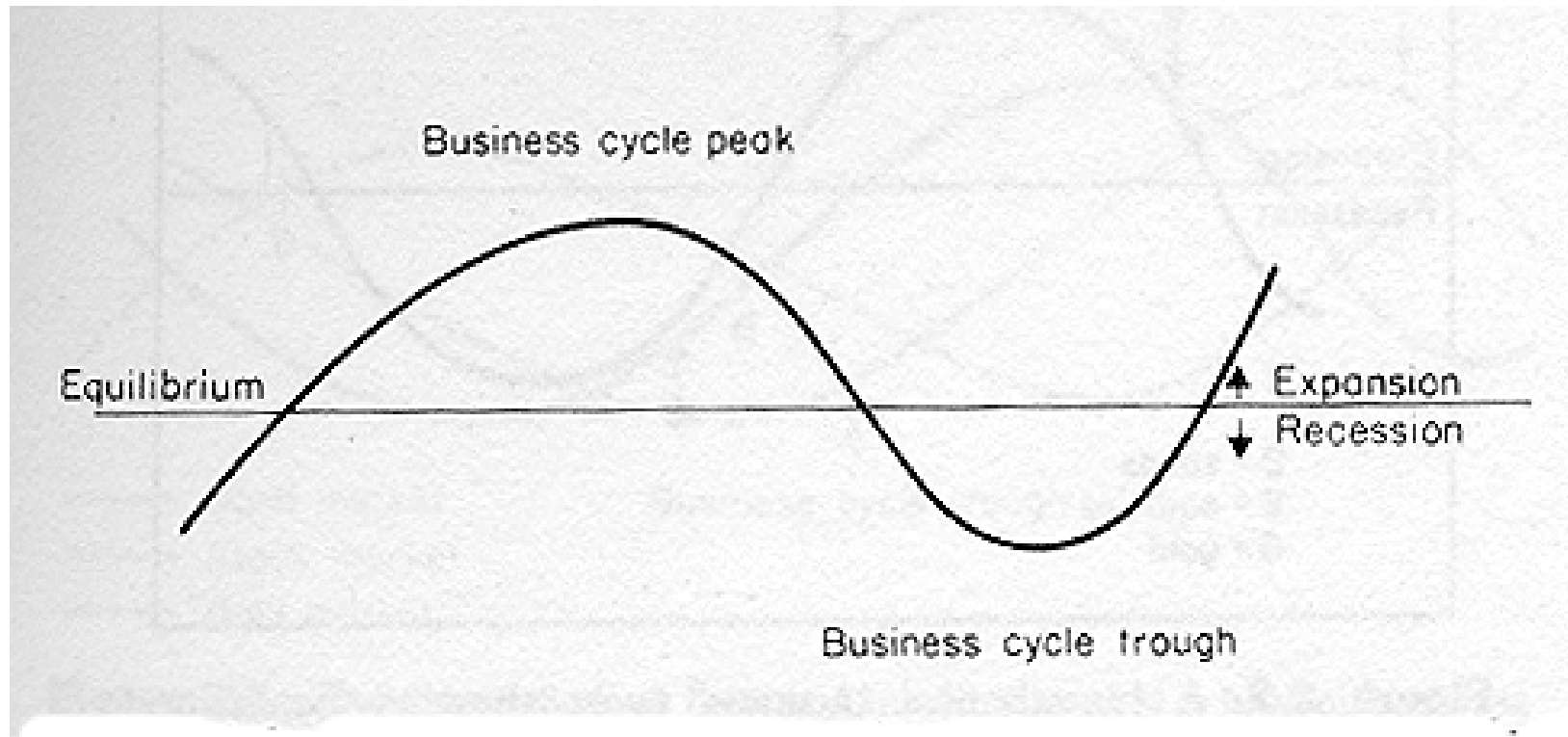
At market exchange rates



Sources: AT Kearney; Bloomberg; BP; dotMobi; Fortune; IMF; UBS; UN; World Bank; World Steel Association; WTO

CYCLES IN THE WORLD ECONOMY

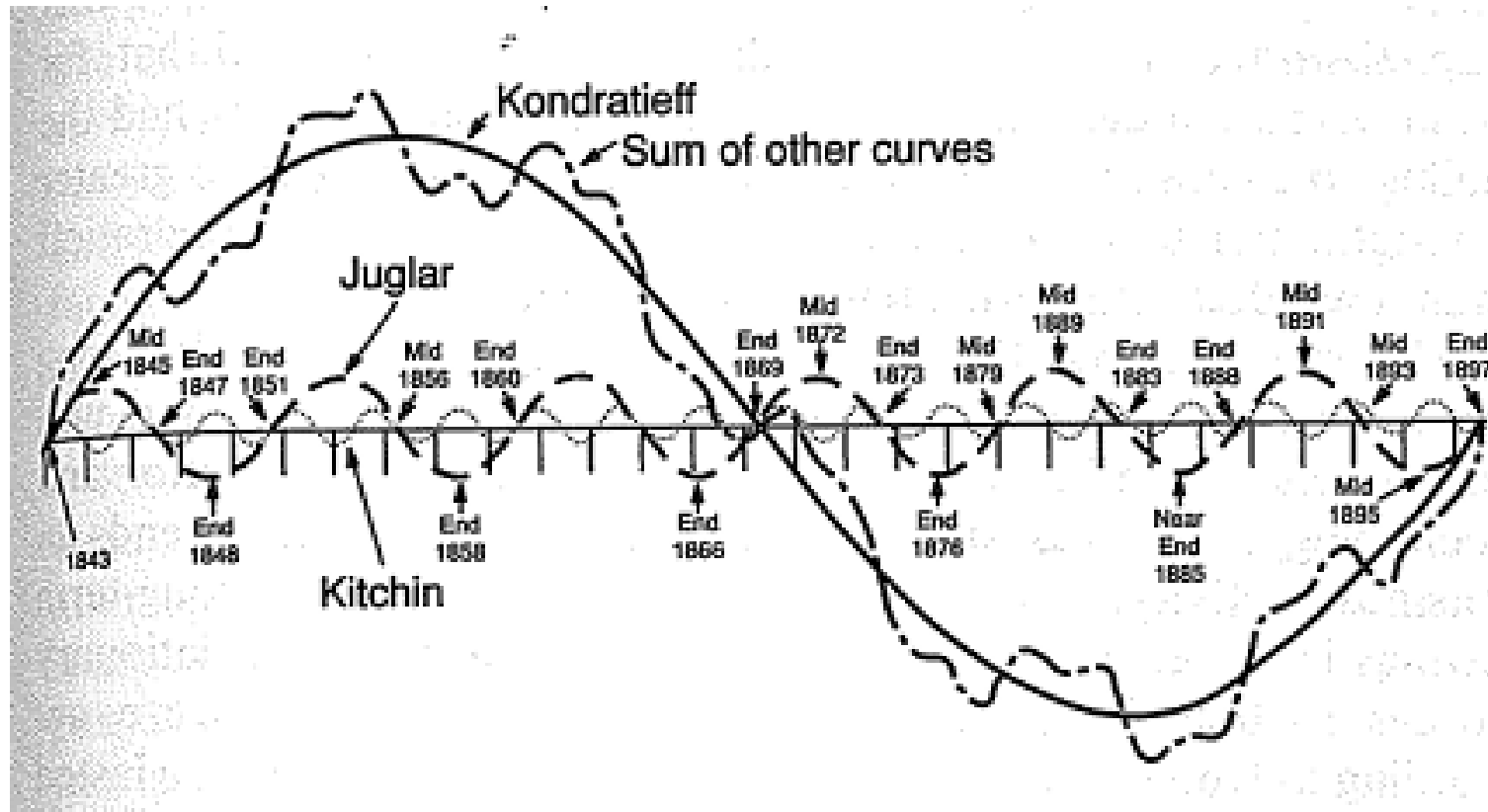
A typical cycle



Types of cycles

| Cycle | Duration | Source |
|---------------|------------------|----------------------------------|
| K-Wave | 50-60 yrs | Major innovations |
| Juglar | 7-11 yrs | Fixed capital investments |

Combining waves

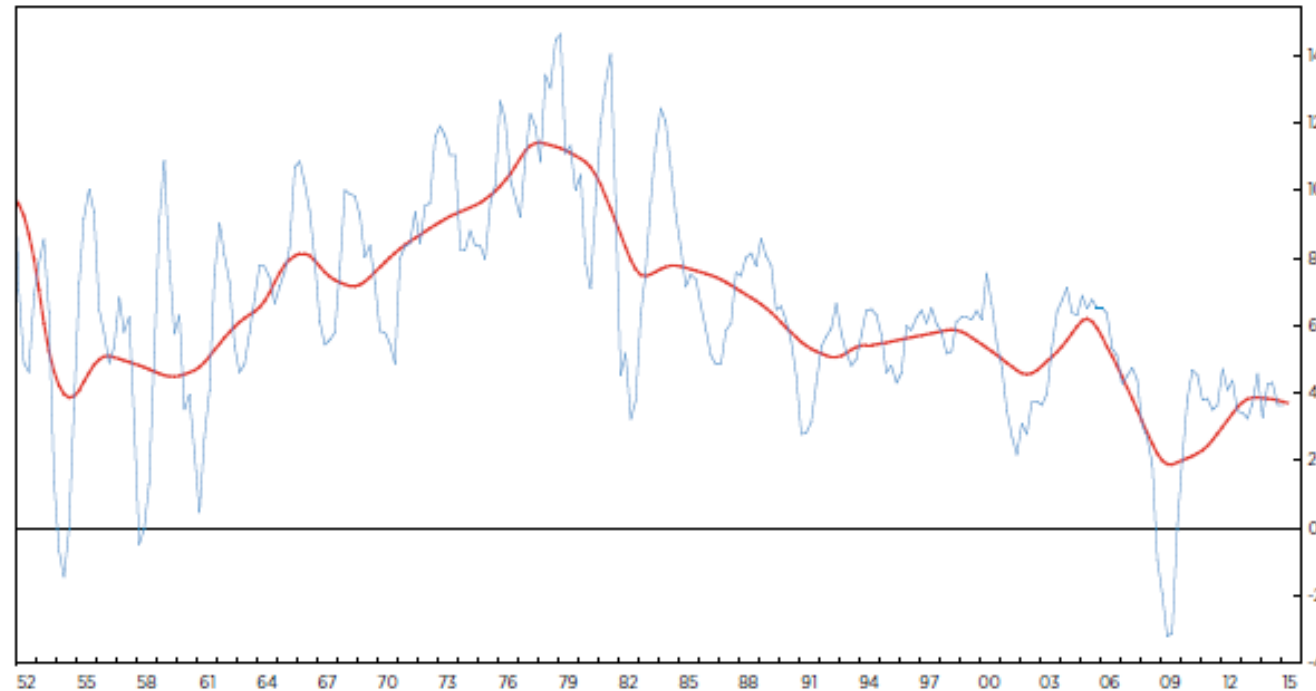


Long cycle dating

| Trough | Peak | Trough | Duration | Hegemonic Power | Technology |
|--------|------|--------|----------|-----------------|---|
| 1790 | 1814 | 1848 | 58 | Britain | Canals |
| 1848 | 1872 | 1893 | 45 | Britain | Railways, Steam (steam engine) |
| 1893 | 1917 | 1940 | 47 | Britain | Steel, Combustion engine, Electricity, Chemicals, Telephone |
| 1940 | 1975 | 2009 | 60 | United States | Electronics, Plastics, Aerospace, Nuclear energy |
| 2009 | 2030 | 2050 | 50 | China/E.Asia | Computers, Biotechnology, Robotics |

Falling US growth in the context of the long cycle

Actual and Trend U.S. Nominal GDP Growth (%)





Juglar dating – cycle bottoms

1958

1970

1975 (oil shock)

1980

1991

2001

2009

2016 (my estimate)

Economic growth and inflation slowing between recent short cycles

| | 2003-7 | 2010-14 |
|---------------------------|------------|------------|
| Growth | | |
| <i>Advanced economies</i> | 3.3 | 2.5 |
| <i>BRICs</i> | 8.3 | 6.2 |
| | | |
| Inflation | | |
| <i>Advanced economies</i> | 2.3 | 1.5 |
| <i>BRICs</i> | 5.3 | 4.9 |

FUTURE PROSPECTS

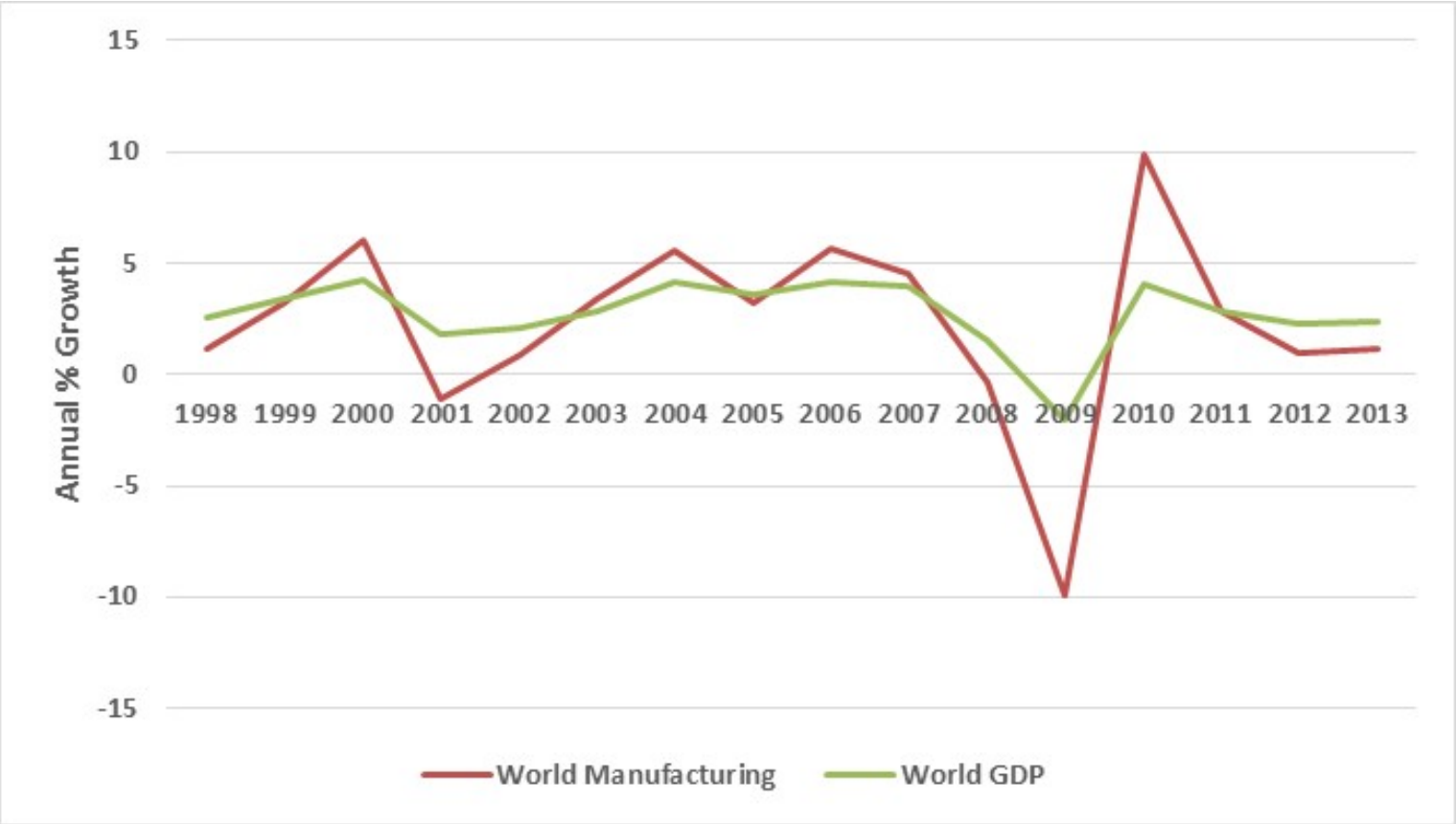


Short-run (next couple of years)

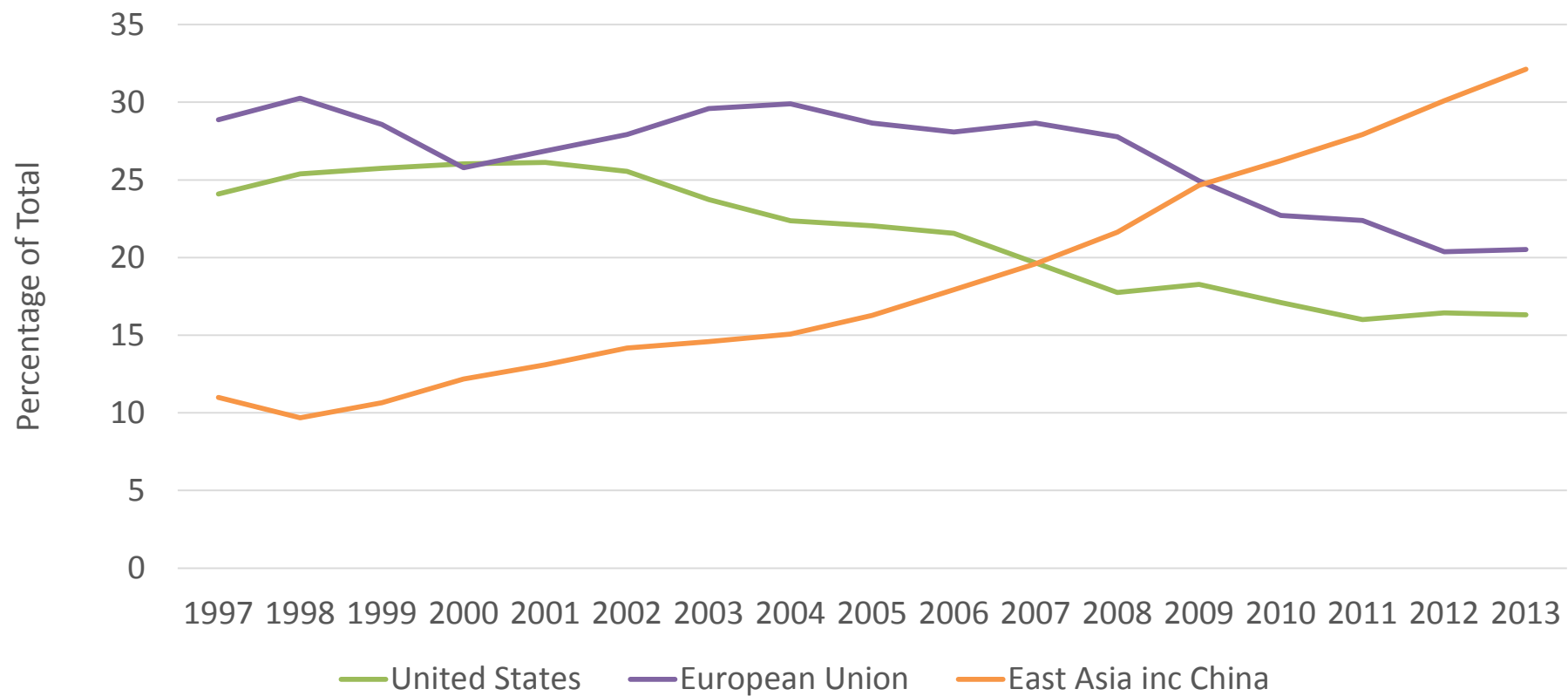
- US and Europe will follow E. Asian countries into **recession in 2016**, but not necessarily a major fall in stock markets.
- More **quantitative easing** in US, Europe, Japan and China.(1)
- **Fiscal stimulus** in China and advanced countries.



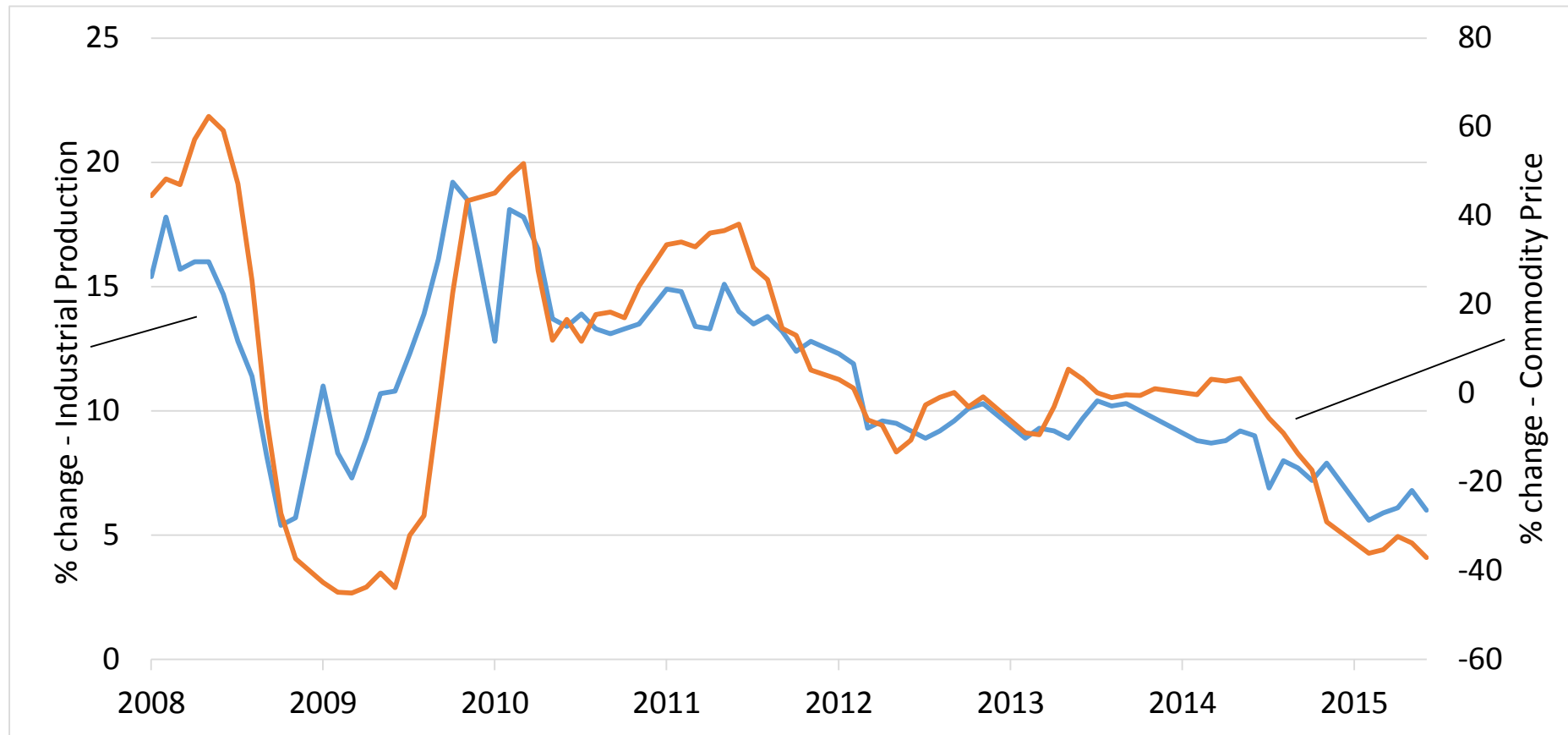
Manufacturing driving world GDP



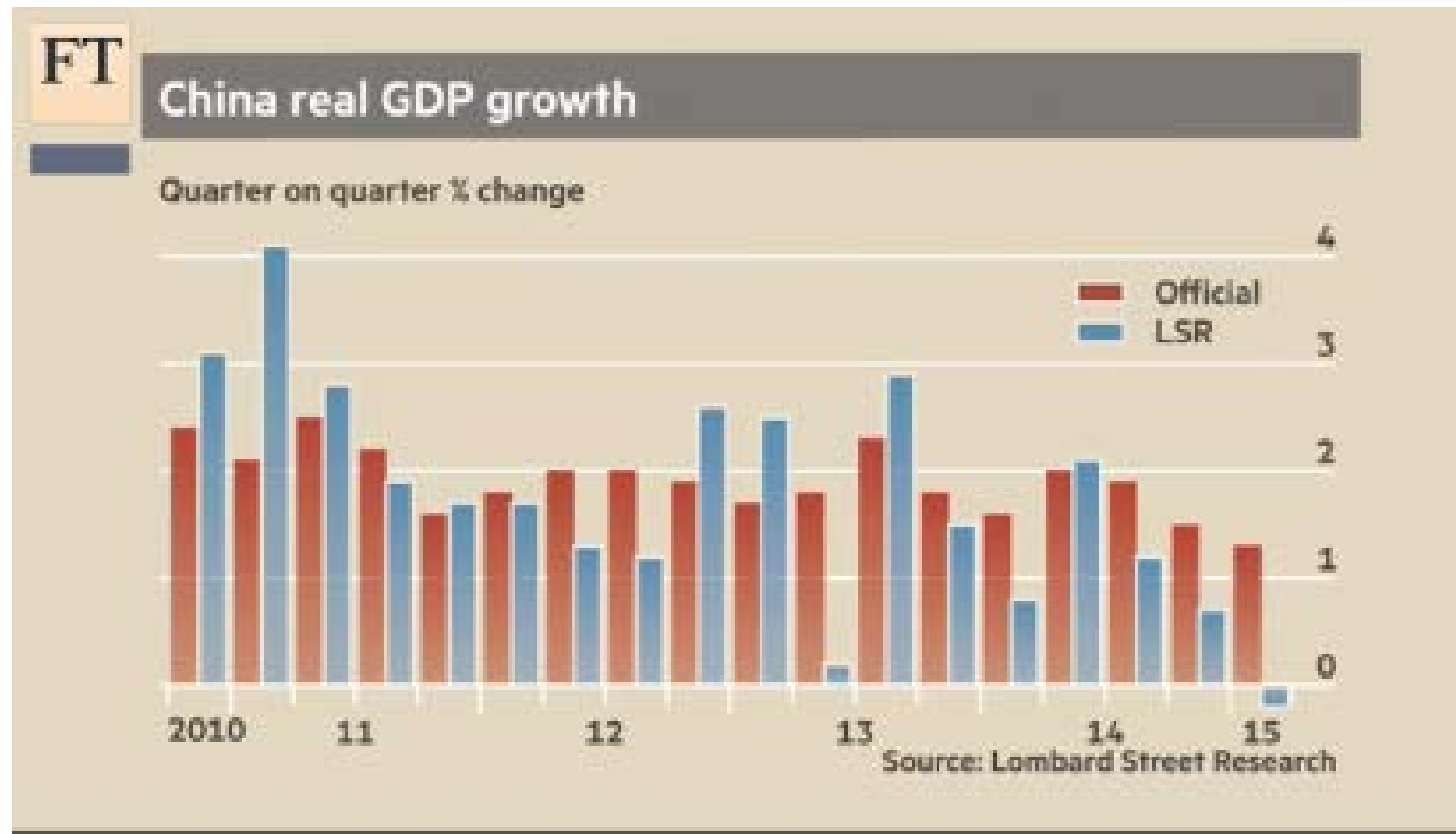
Shares of world manufacturing; US, EU and E. Asia, 1997-2014



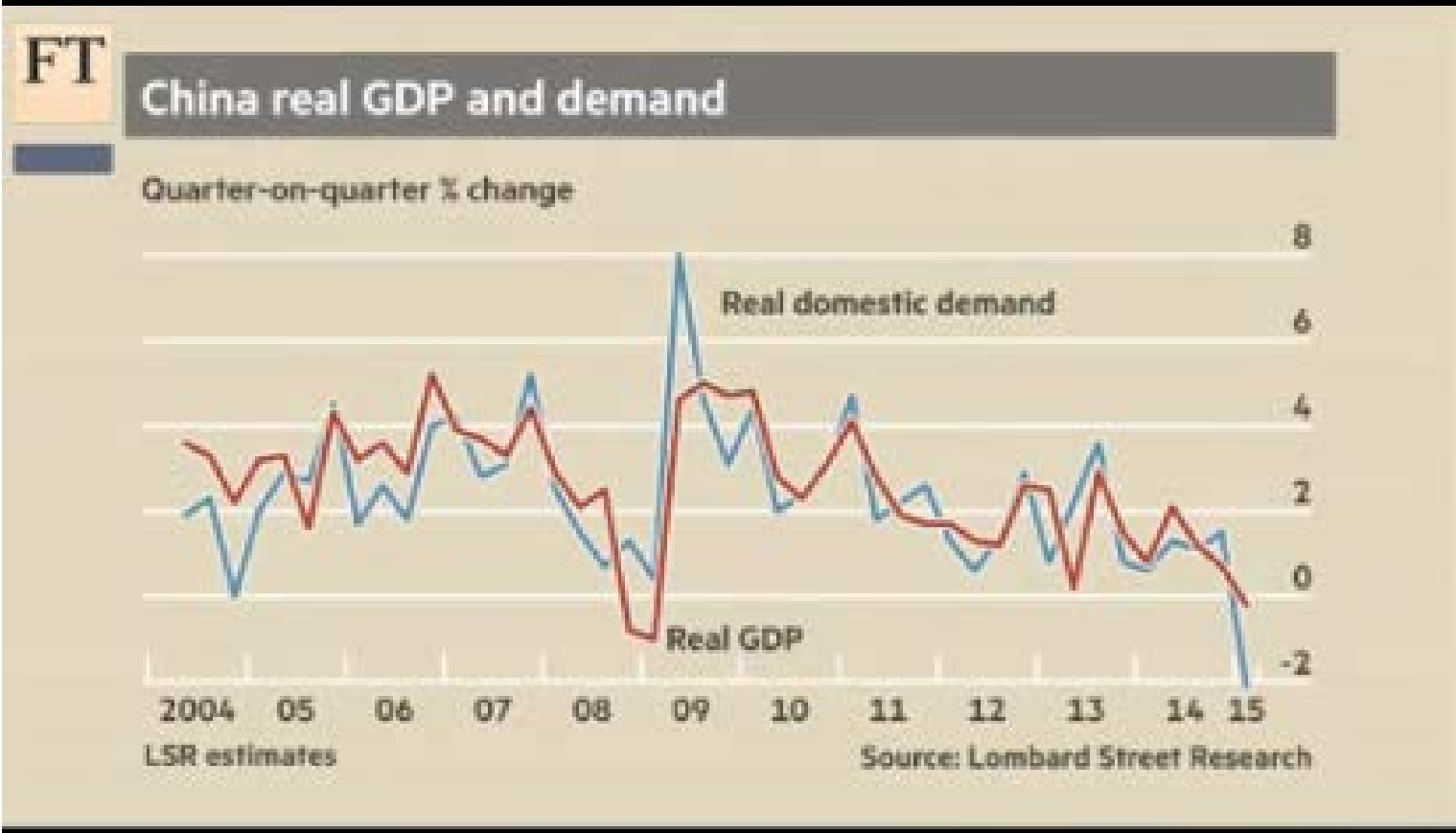
Growth of Chinese industrial production and primary commodity prices, 2008-2015



China may already be in recession



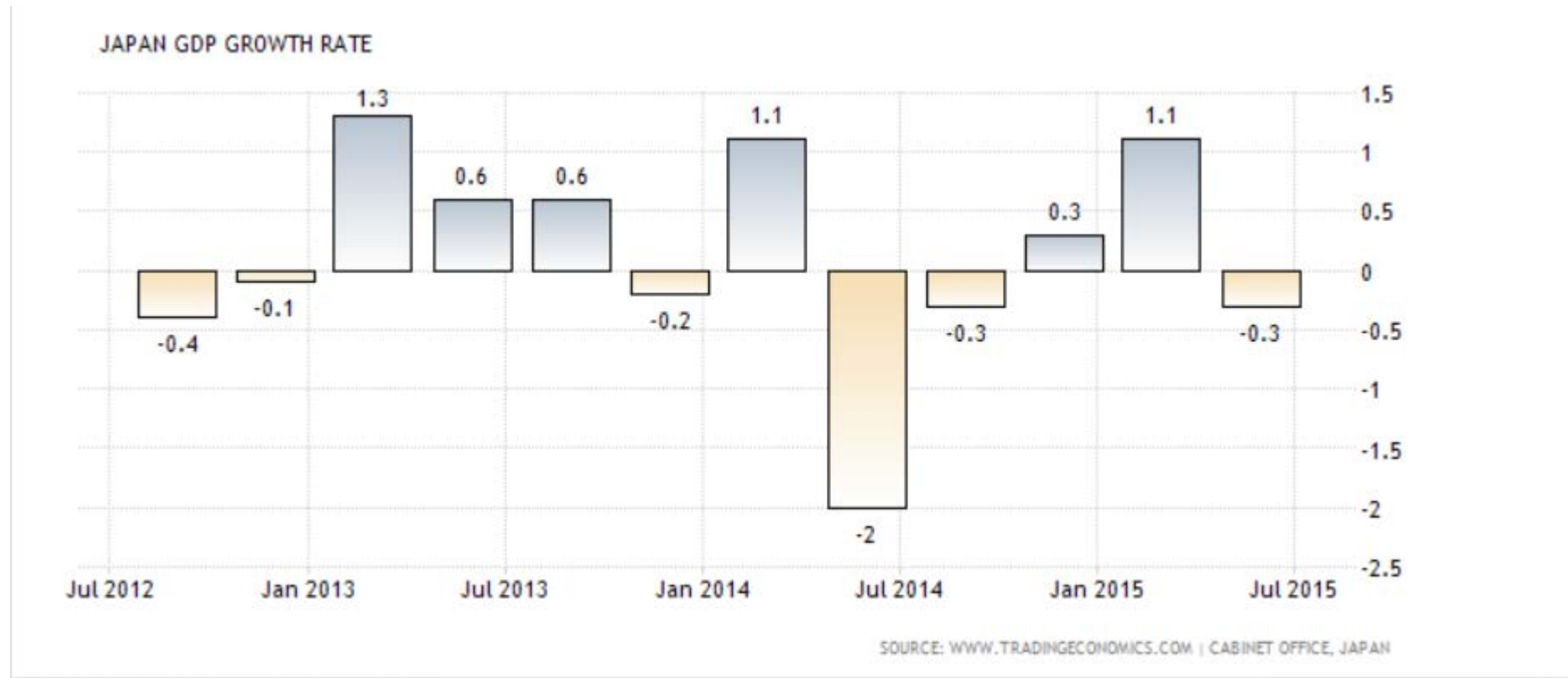
Don't count on Chinese consumers



Emerging markets falling fast



Japan weakening



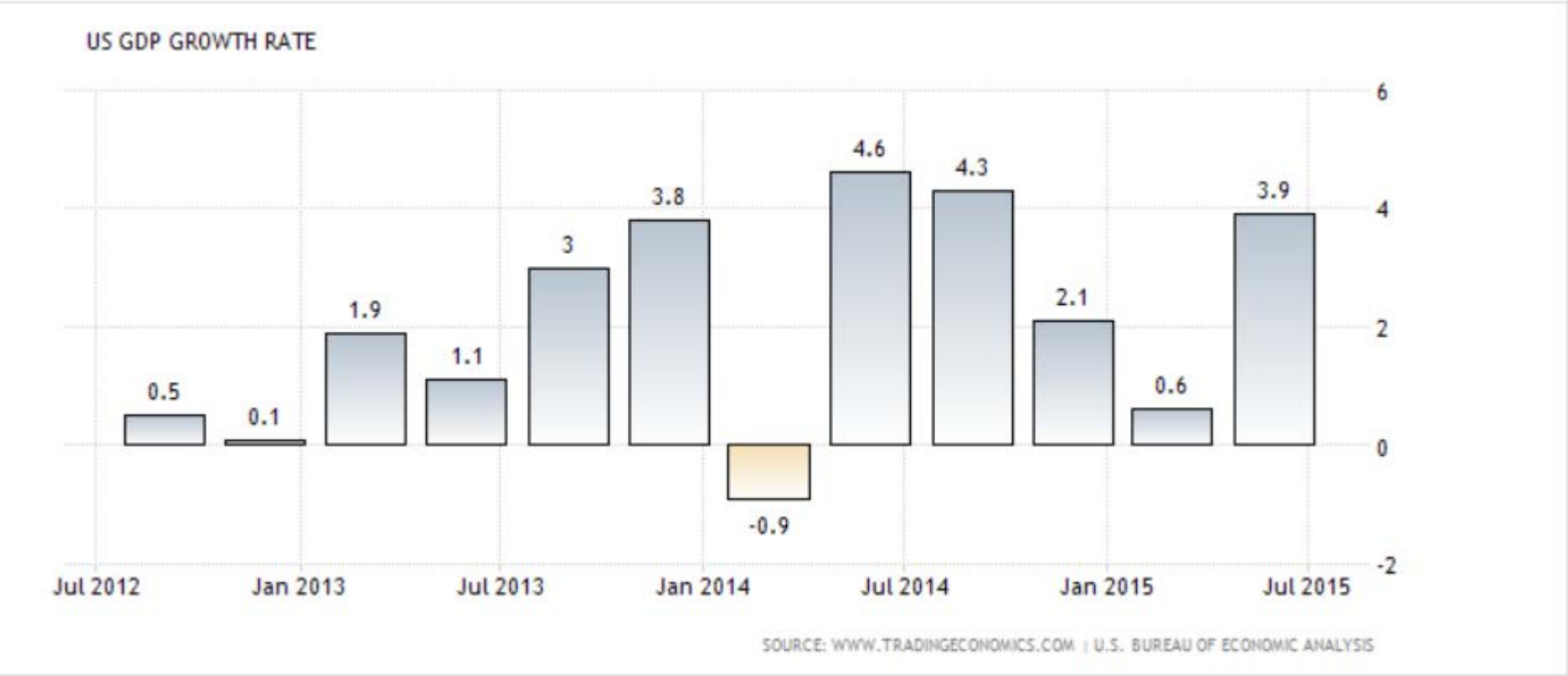
Europe recovering?



The German export engine is losing steam



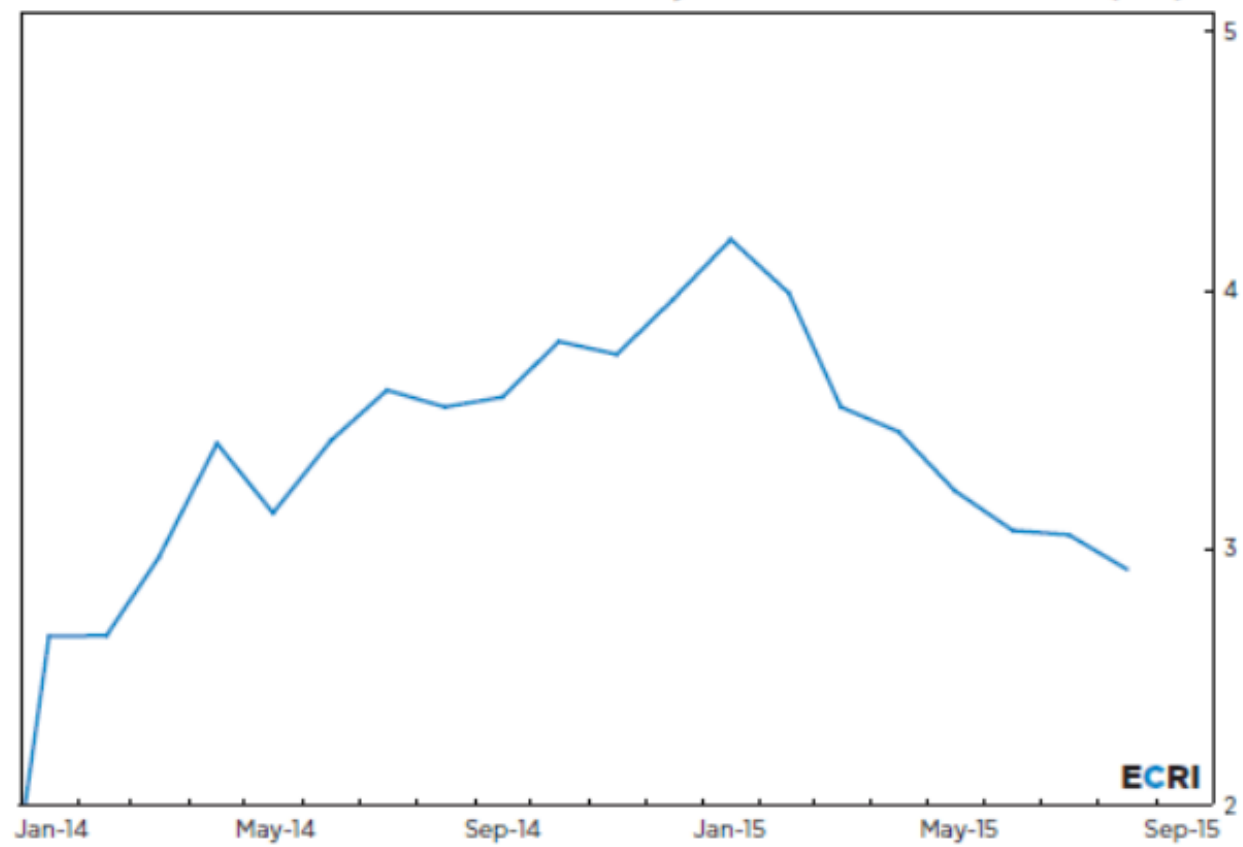
US remaining strong



US earning growth falling



U.S. Coincident Index, YOY Growth (%)



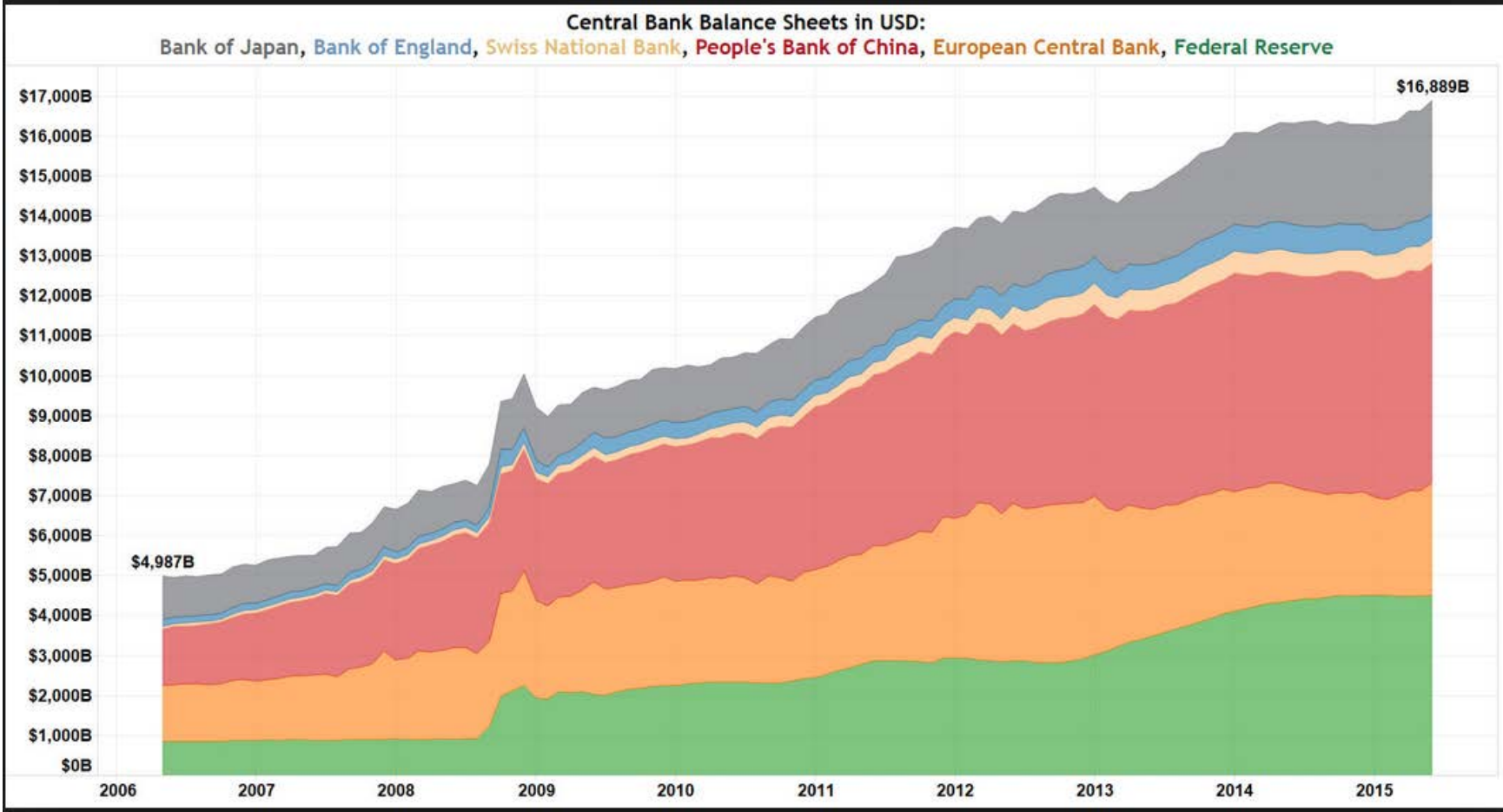
G3 durable goods orders suggesting weakness



Long-run (upswing of the long business cycle)

- Continuing **shift of wealth and power** to the developing countries.
- Many more developing countries will **shift towards manufacturing production**.
 - *The successful ones will **attract manufacturing production** seeking to relocate from China and other high-cost East Asian producers.*
- Some recovery in primary commodity prices.
- **Misguided monetary stimulus policies** of the advanced countries could considerably delay the up-turn of the long business cycle.

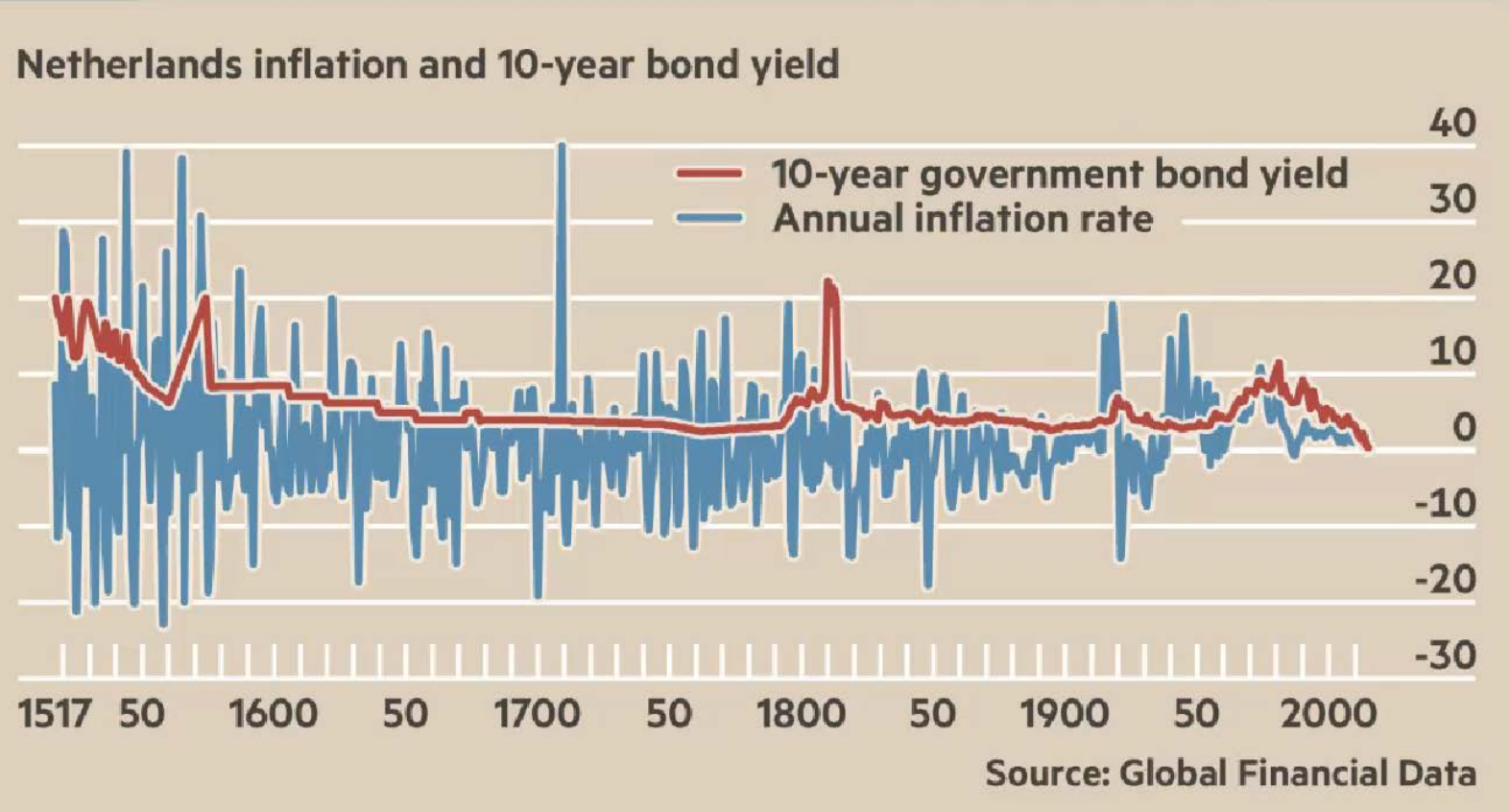
Printing by central banks



Falling long-term (10 year) interest rates, Germany, Japan, UK and US



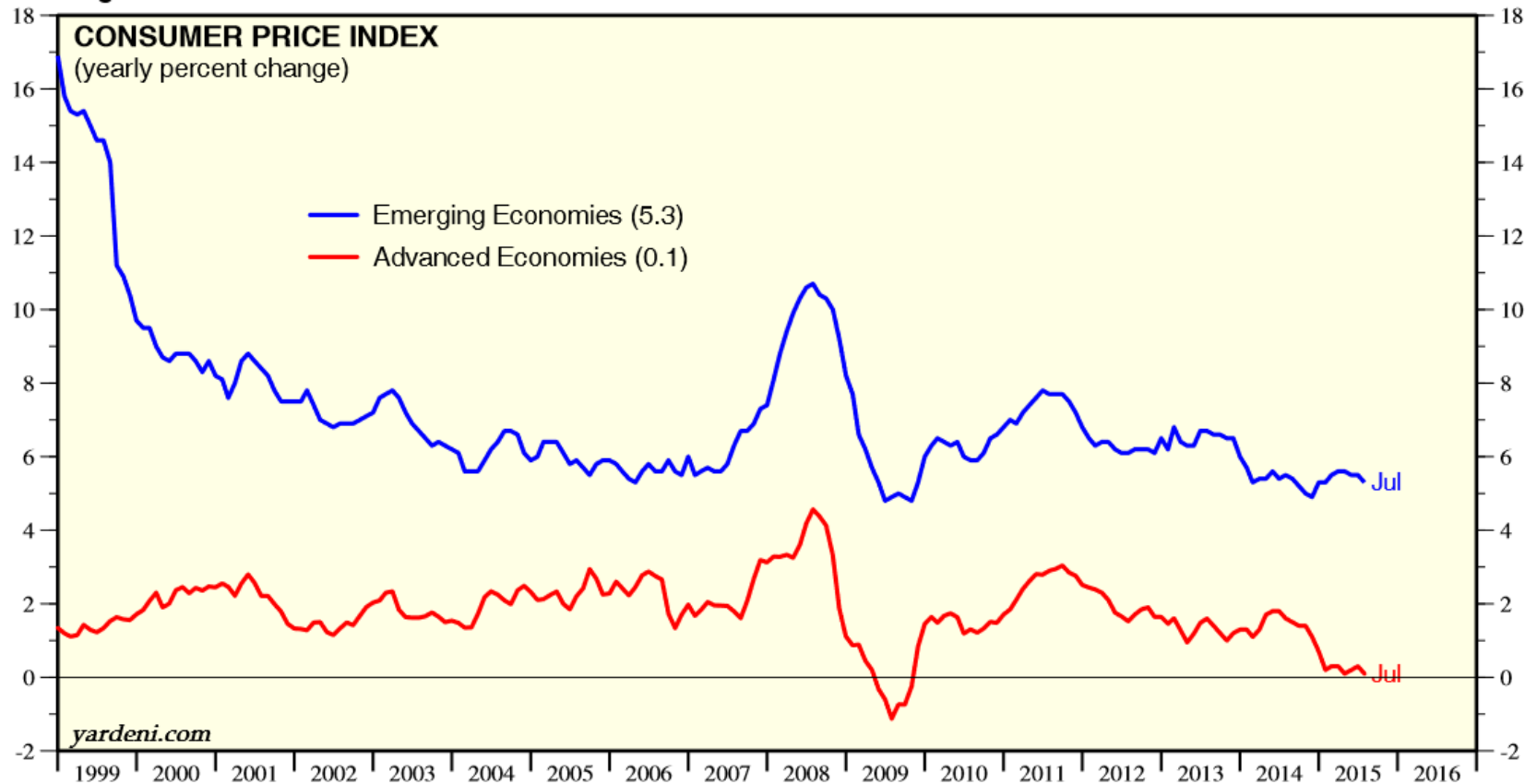
Historically low long-term interest rates



...and short term interest rates

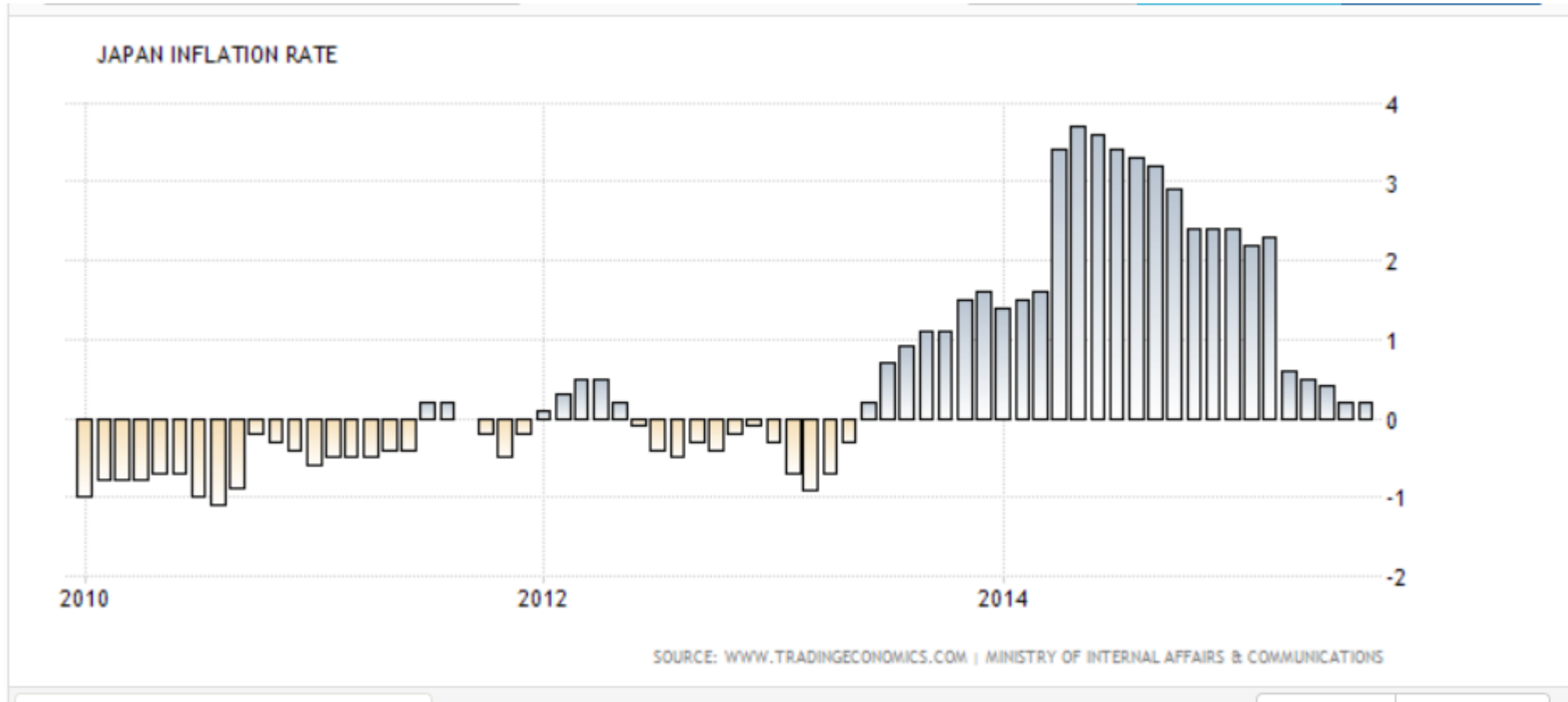


What did QE achieve?

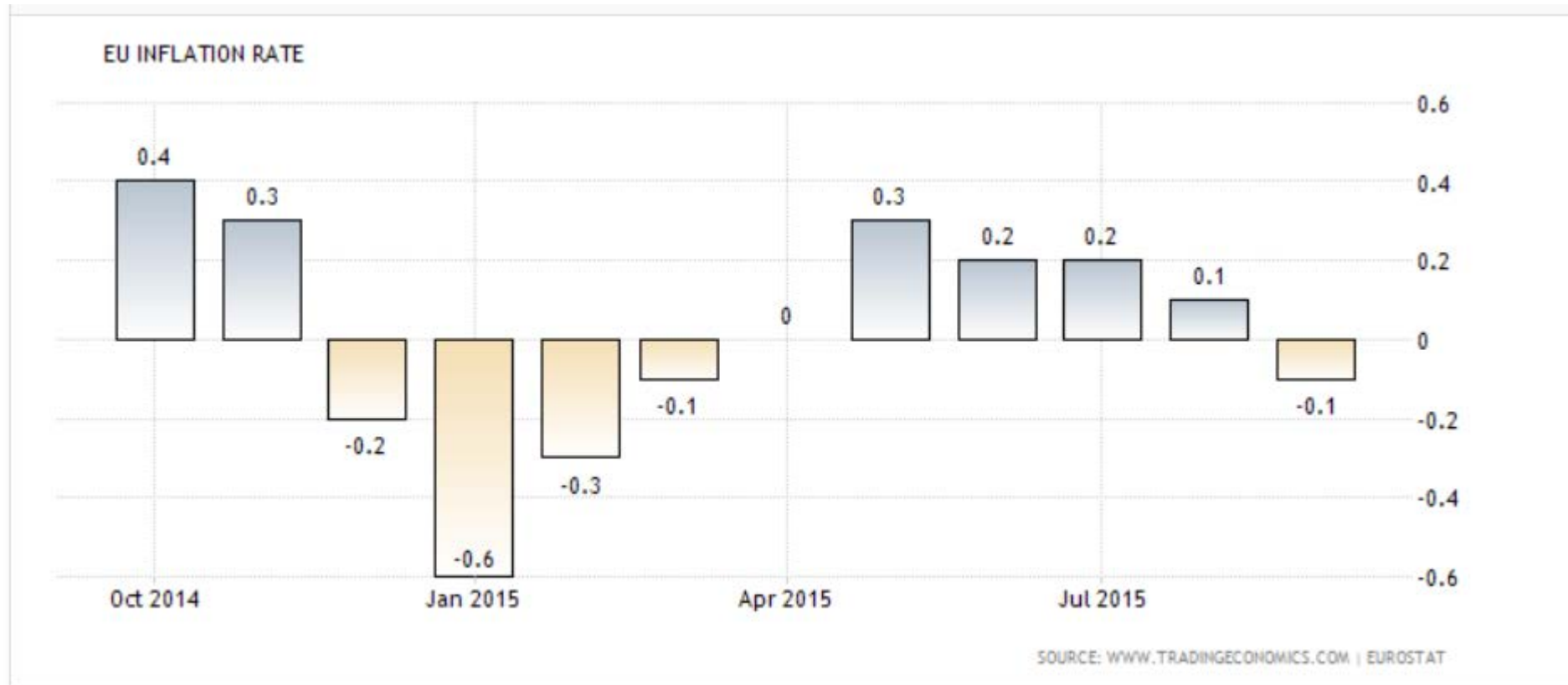


Source: IMF.

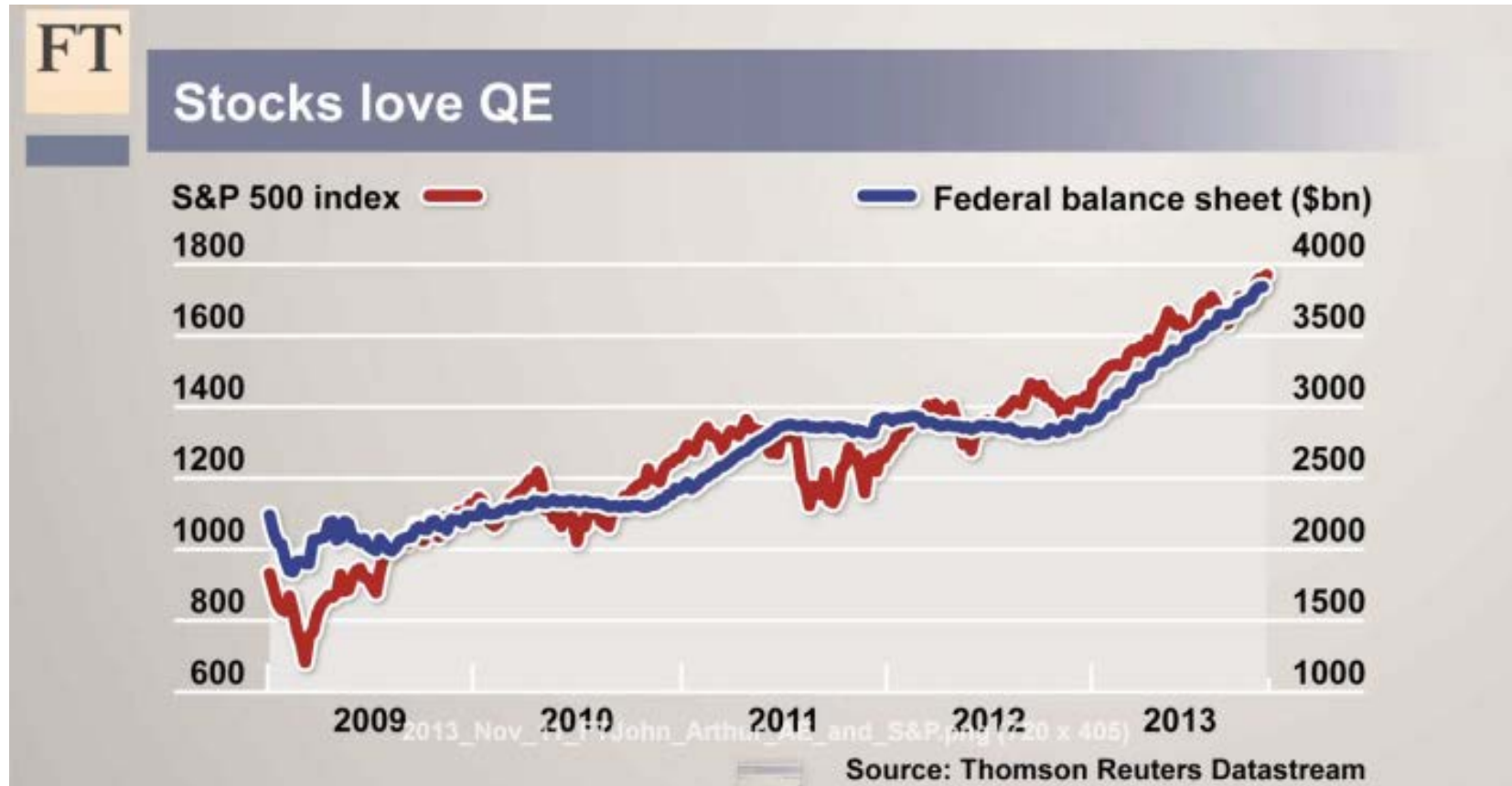
QE and inflation in Japan?



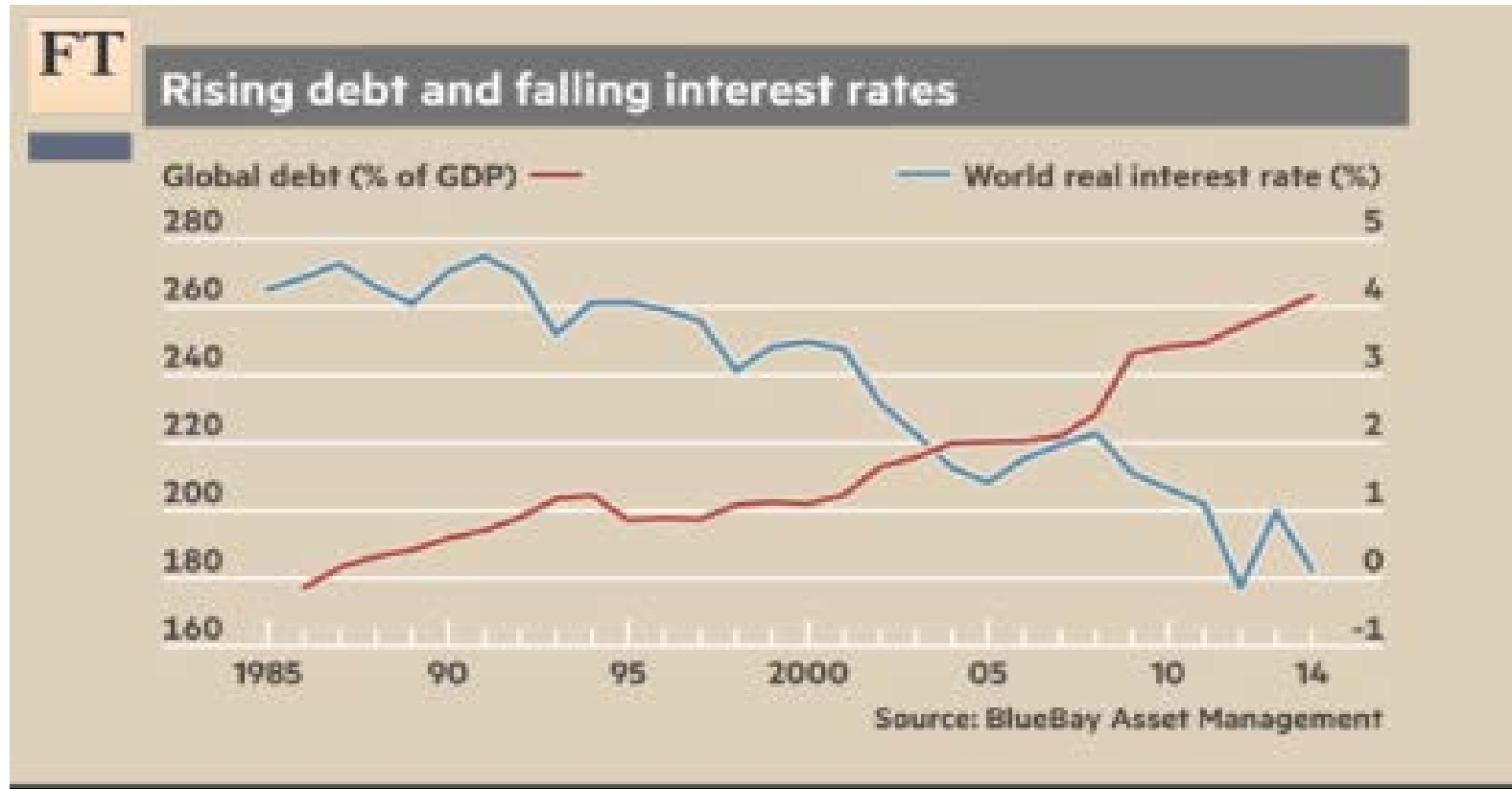
QE and inflation in Europe?



...Asset price inflation



Falling global interest rates encouraging surge in global debt



A mega asset price bubble?

