World Economy Heading for Another Period of Weakness

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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

Stop the world, we want to get off
United States

% of Americans agreeing that US should “mind its own business” internationally

Trade as % of GDP

Sources: Pew Research Centre; World Bank

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

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2.3%</td>
<td>16.3%</td>
</tr>
<tr>
<td>India</td>
<td>3.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.12%</td>
<td>0.20%</td>
</tr>
</tbody>
</table>
Global balance

Economies’ share of world GDP, %
At market exchange rates

Forecast

Developed

Emerging

1990 95 2000 05 10 15 20

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

<table>
<thead>
<tr>
<th>Cycle</th>
<th>Duration</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-Wave</td>
<td>50-60 yrs</td>
<td>Major innovations</td>
</tr>
<tr>
<td>Juglar</td>
<td>7-11 yrs</td>
<td>Fixed capital investments</td>
</tr>
</tbody>
</table>
Combining waves
## Long cycle dating

<table>
<thead>
<tr>
<th>Trough</th>
<th>Peak</th>
<th>Trough</th>
<th>Duration</th>
<th>Hegemonic Power</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>1790</td>
<td>1814</td>
<td>1848</td>
<td>58</td>
<td>Britain</td>
<td>Canals</td>
</tr>
<tr>
<td>1848</td>
<td>1872</td>
<td>1893</td>
<td>45</td>
<td>Britain</td>
<td>Railways, Steam (steam engine)</td>
</tr>
<tr>
<td>1893</td>
<td>1917</td>
<td>1940</td>
<td>47</td>
<td>Britain</td>
<td>Steel, Combustion engine, Electricity, Chemicals, Telephone</td>
</tr>
<tr>
<td>1940</td>
<td>1975</td>
<td>2009</td>
<td>60</td>
<td>United States</td>
<td>Electronics, Plastics, Aerospace, Nuclear energy</td>
</tr>
<tr>
<td>2009</td>
<td>2030</td>
<td>2050</td>
<td>50</td>
<td>China/E.Asia</td>
<td>Computers, Biotechnology, Robotics</td>
</tr>
</tbody>
</table>
Falling US growth in the context of the long cycle
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

<table>
<thead>
<tr>
<th></th>
<th>2003-7</th>
<th>2010-14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced economies</td>
<td>3.3</td>
<td>2.5</td>
</tr>
<tr>
<td>BRICs</td>
<td>8.3</td>
<td>6.2</td>
</tr>
<tr>
<td><strong>Inflation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced economies</td>
<td>2.3</td>
<td>1.5</td>
</tr>
<tr>
<td>BRICs</td>
<td>5.3</td>
<td>4.9</td>
</tr>
</tbody>
</table>
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

Not what it was
GDP, % change on a year earlier

- China and India
- Emerging economies
- Latin America
- Sub-Saharan Africa

Source: IMF
Forecast
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

Netherlands inflation and 10-year bond yield

Source: Global Financial Data
...and short term interest rates
What did QE achieve?
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?

Climb every mountain
Aggregated average valuation of bonds, equity and property*, percentile
15 rich countries

Source: Deutsche Bank
*Since 1970