How are the CIVETS doing and who’s in the new zoo?

Robert Ward

Director, Country Publishing

IMnI annual conference

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robertward@eiu.com

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2013—better than 2012, but it may not feel like it

- Europe struggles will continue
  - Euro recovery anaemic—0.4% GDP contraction
    - Parts of periphery in depression
  - UK returns to weak growth
- US recovery momentum is accelerating
  - The housing market is recovering
  - Watch for cliffs and ceilings!
- China yoyo-ing—about 8.5% growth
  - Strongly outperforming the West
    - But experiencing growing pains as it moves to middle-income status
- Oil remains in comfortable surplus
- Asia remains the fastest growing region, but watch Africa too
- Assets will stay on their sugar high
Global GDP, nominal US$ trn at PPP. Source: EIU.
The developed world
From crisis management to future planning
Euro zone: The evolution of a crisis—2009

Policies that are politically feasible

Policies that might actually work
Euro zone: The evolution of a crisis—2013

Policies that are politically feasible

Policies that might actually work
Euro zone: Watch the politics

Same bed, different dreams
US: Housing starts, car sales, ‘000s. Source: Haver.

Recovery!
Japan: Abenomics—be careful what you wish for

Positive
• A weaker yen will boost net exports—domestic demand is too weak to do this on its own
• Japan could then import foreign demand
• Stimulus will boost nominal GDP and hence tax revenue, reducing debt ratios
• Japan is in an economic cul-de-sac, so why not try something different?!

But
• Extreme macro policy can reduce trend growth through distortions/zombie proliferation
• Ending deflation won’t automatically boost growth
• Internal currency wars suggest the yen won’t weaken as much as it needs to (>¥120:US$1?)
• In the short term, deflation needs to continue to keep real rates high, which keeps cash at home
• If inflation takes off, “independent” central bank may be needed to rein in prices

Sources: IMF, EIU.

Prepare for opportunity.™
High-growth markets China centric?
Asia—five of the top 12 in 2020

GDP, purchasing power parity; US$ bn. Source: Economist Intelligence Unit.
China is moving to a period of structurally lower growth—less growth “needed” now

New leadership will take a cautious approach to policy

Economic rebalancing is under way—private consumption will increasingly drive growth

Lower level manufacturing will be shed to Asia as the shift towards higher-value added products/rising wages continues

A relaxation of the *hukou* residence permit system would accelerate urbanisation

RMB trading band will be widened, with RMB set to appreciate by just under 1% a year against US$ in the next five years
China: Investment provides less bang for buck now

Fixed asset investment and growth: Source: China National Bureau of Statistics, EIU.
China: Mega-urbanisation

Year in which average disposable income per capita exceeds RMB30,000

Source: Access China, Economist Intelligence Unit.
Average real wages in the US will have risen by 6% between 2005 and 2016; in China real wages will have risen by 180%.
EMs: Are there any other Chinas out there?

Labour costs vs logistics vs labour force

Source: EIU CountryData 2012, World Bank
EMs: China stimulates South-South trade

Exports. Em Asia, IMF definition. Source: IMF.
Africa: The final frontier

The BRICs: So yesterday!

Real GDP growth, % change, year on year. Sources: Haver, EIU.
Latin America: A mixed bag

- Slowdown in 2012; external headwinds
- Region is expected to grow around 4% annually in 2013-16
- Panama, Peru, Chile and Colombia among the top performers, with annual rates of 5% to 6%
- Most other countries to grow faster than the global annual average
- Brazil needs to reform; Mexico is driven by trends in the US and also needs structural reforms

Brazilian GDP per head at PPP in 2010 is 23% that of the US, same as in 1990

GDP/head as % of US GDP/head, PPP. Source: EIU.
Oil: Demand weakness raises downside risks

- Global oil consumption to grow just 1% this year and 1.3% in 2013; OECD consumption in structural decline

- Supply rose by 3.3% in 2012, 2.5% in 2013: Iraq, Saudi Arabia and the US!

- The market should be in surplus and prices lower, but the risks are high
  - Iran
  - Syria, Yemen, Sudan, North Sea
  - China bounces back more strongly than anticipated
  - Non-fundamental factors are positive for prices: loose monetary conditions, ample liquidity

Oil production trends. Source: IEA.
Risk factors for a broad-based EM crisis

China
• Hard landing
• Social unrest political instability

Euro zone break-up (exit of large member state(s))
• Damage to global financial system, real economy

Steep rise in interest rates in developed world
• Possibly associated with exit from QE
Dei ex machina
Top business issues

• Hyper-globalisation
  ➢ Chinese car firms come to Europe

• Manufacturing revolution
  ➢ Rising Chinese wages
    ◦ Helps other emerging countries
  ➢ Erosion of economies of scale
    ◦ Mass customisation and shrinking supply chains
    ◦ Additive manufacturing (3D printing)

• Emerging market innovation
  ➢ New business models, e-commerce, mobile banking
  ➢ China produces a worldwide brand—Alibaba, Huawei, Haier?

• Managing for growth markets—Asia a growth market hub?
US gas: A global game changer?

- US gas exports could lower global gas prices—first licence already granted, others may follow
- Rising US gas production allowing fuel-hungry industries (aluminium, PVC etc) to move back to the US
- Some convergence between US and other global gas prices is likely
- Australia at risk from lower gas prices—gas infrastructure build-out for Gorgon project slated to cost US$52bn (and rising)
- China has large shale gas reserves, but accessibility problems and poor regulatory environment are holding back investment

BUT:
- Fields deplete quickly
- Environmental issues about

The winners in 2013 are...
Global round-up: The top 20 fastest-growing economies in 2013

GDP growth, %. Source: EIU.