Global Economic Outlook

Ira Kalish, Deloitte Touche Tohmatsu Limited

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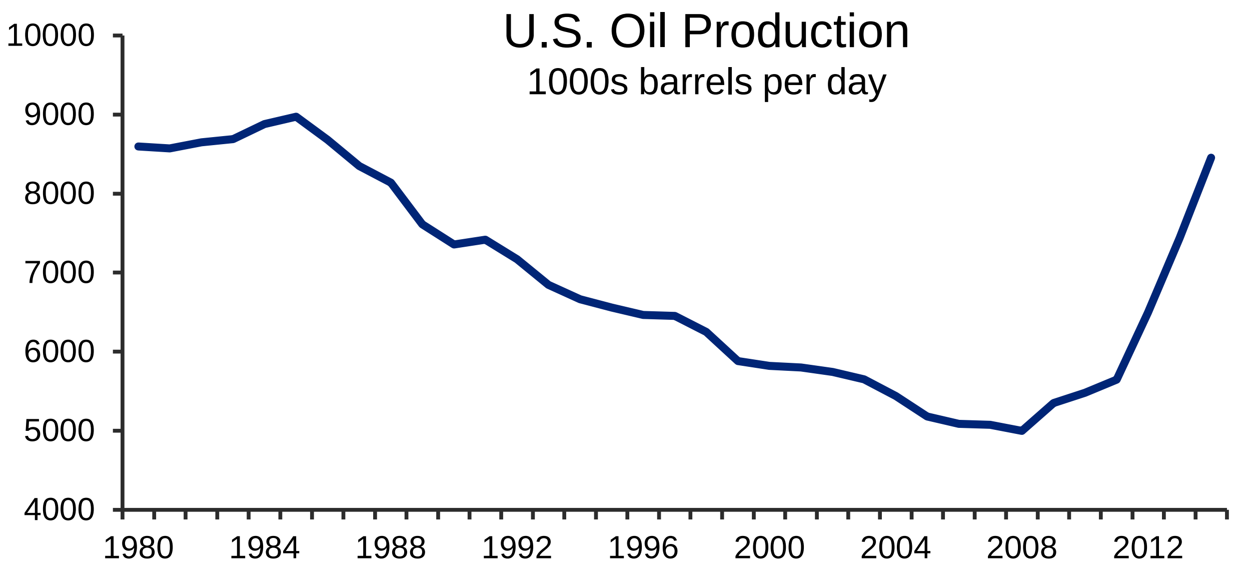
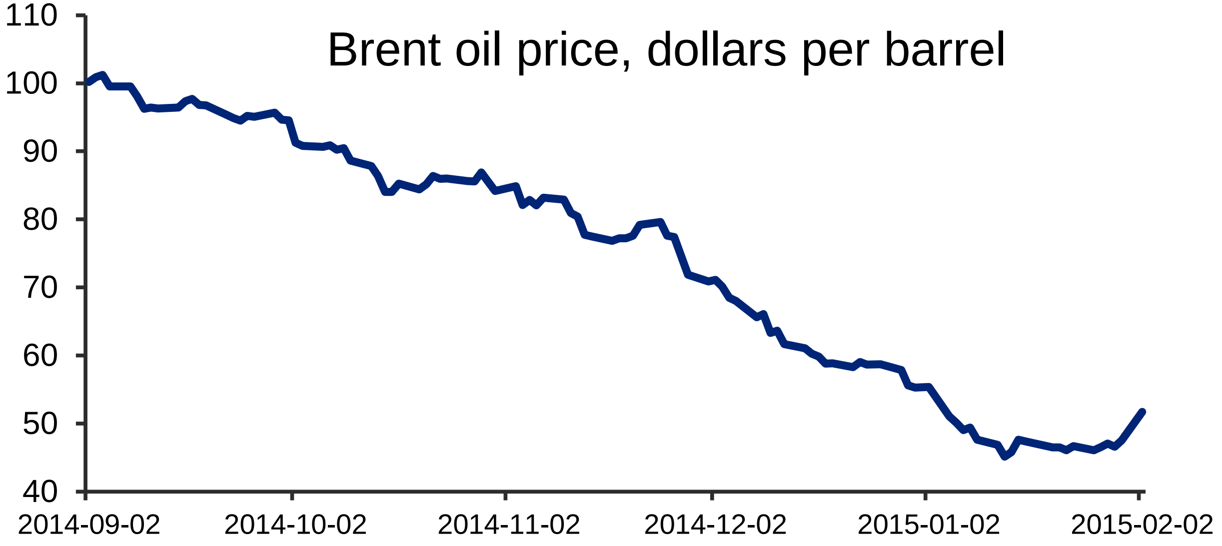
Big global issues

Lower oil prices

- Due, in large part, to fracking, weak global demand, Saudi policy
- Boosts consumer spending
- Creates disinflationary pressure
- Hurts oil exporters (Russia, Iran, Venezuela)
- Expect lower prices in 2015
- Prices rebound in one to two years





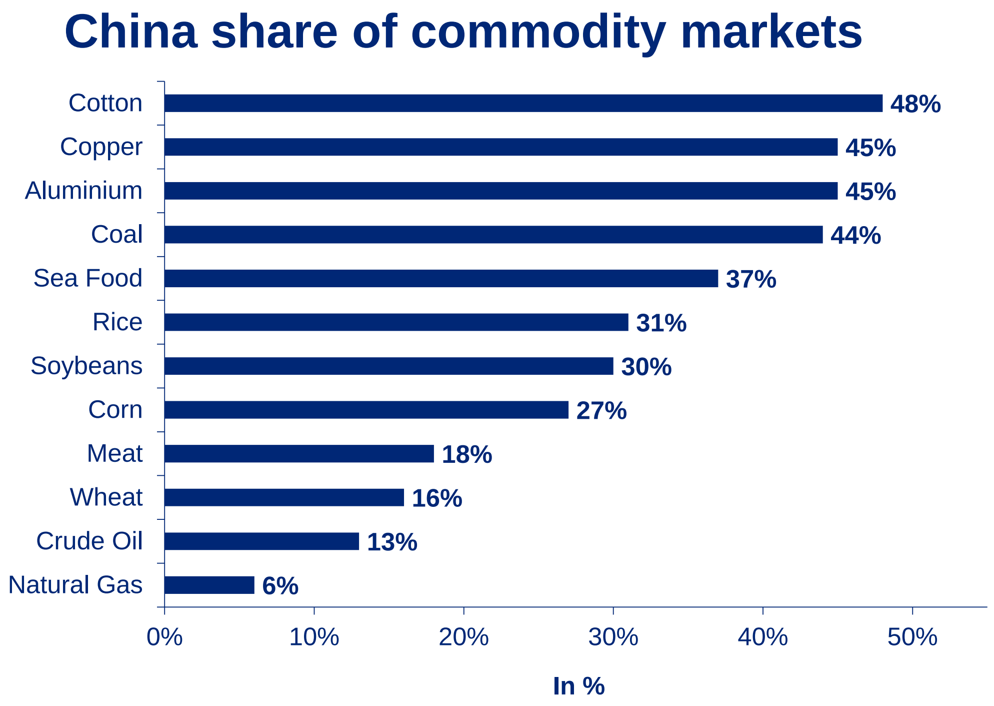
Source: US Federal Reserve

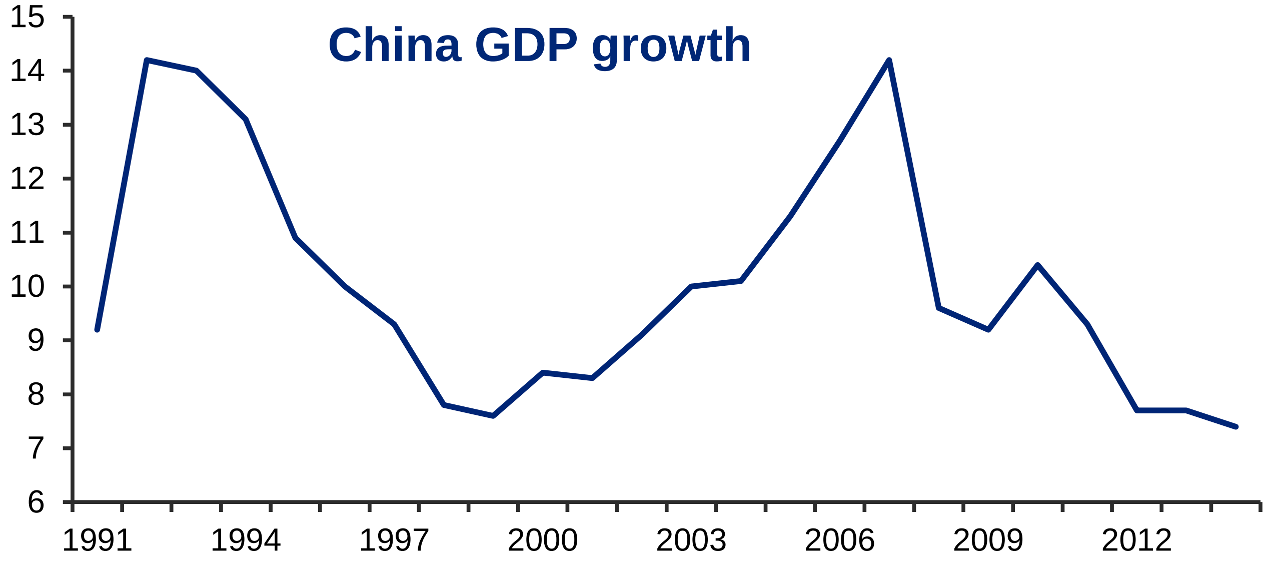
Big global issues
Rising U.S. dollar

- Reasons
  - Lower oil prices
  - Strong U.S. economy, expected higher interest rates
  - Aggressive monetary policy in ECB, Japan, China
- Impacts
  - Lower inflation in U.S., compels Fed to wait
  - Higher inflation in EMs, leads to higher interest rates
  - Shifts in trade patterns
  - Hurts external debtors in emerging markets

Big global issues
Chinese slowdown

- Chinese investment slows
- Weak commodity prices
- Negative impact on
  - Africa
  - Australia
  - Brazil
  - Indonesia

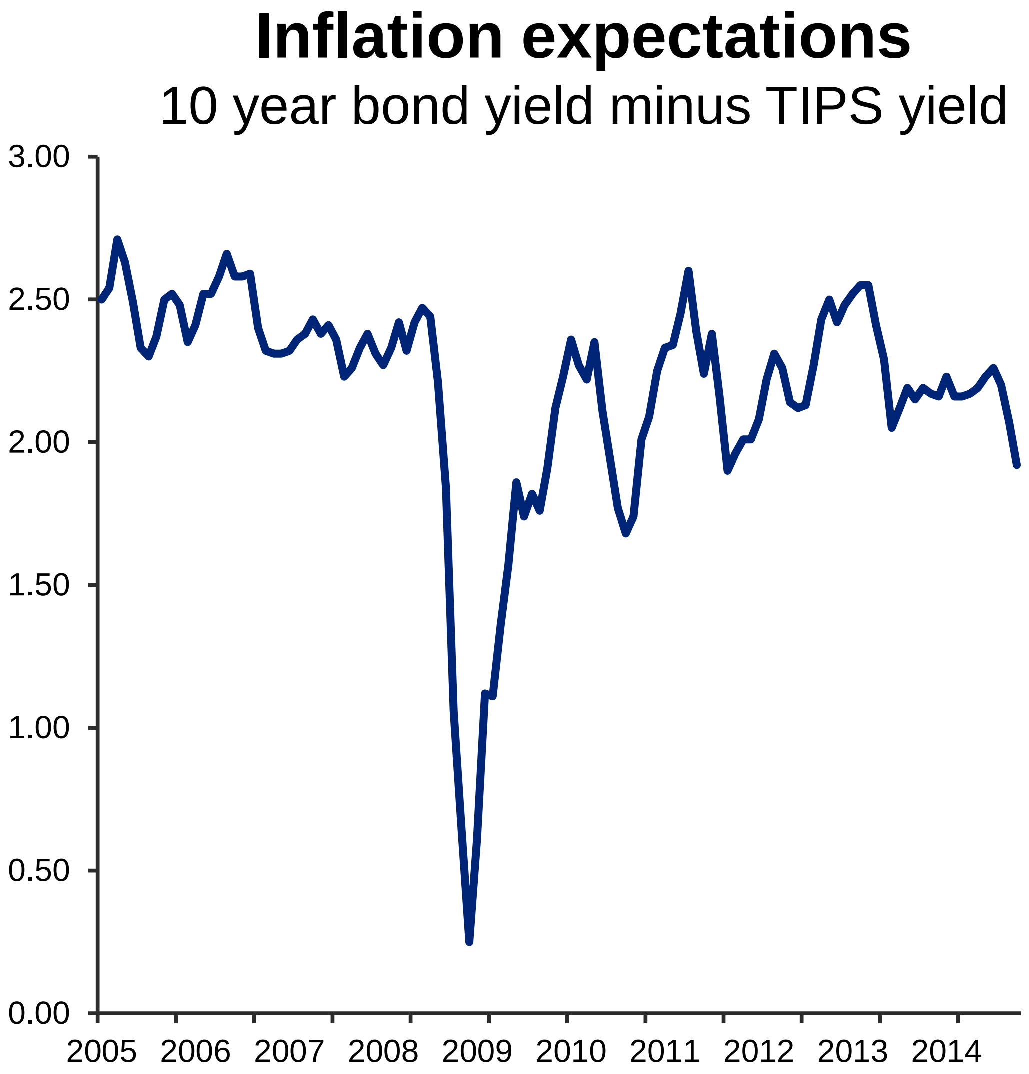




USA

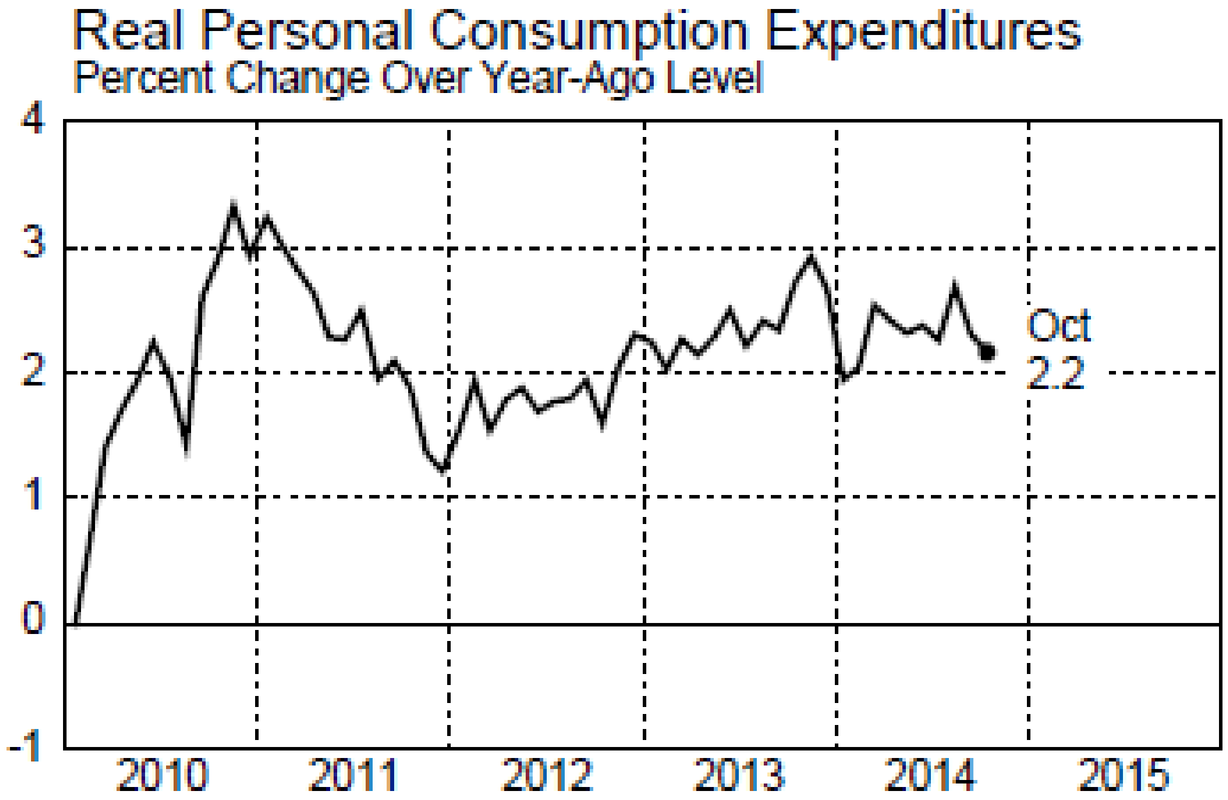
Waiting for the Fed

- Fed targets inflation and unemployment
- Inflation expectations are declining
- Labor market retains slack, but job growth is strong
- Lower oil prices creating a temporary hiatus
- Expect increase in rates late in 2015



USA
Consumer spending

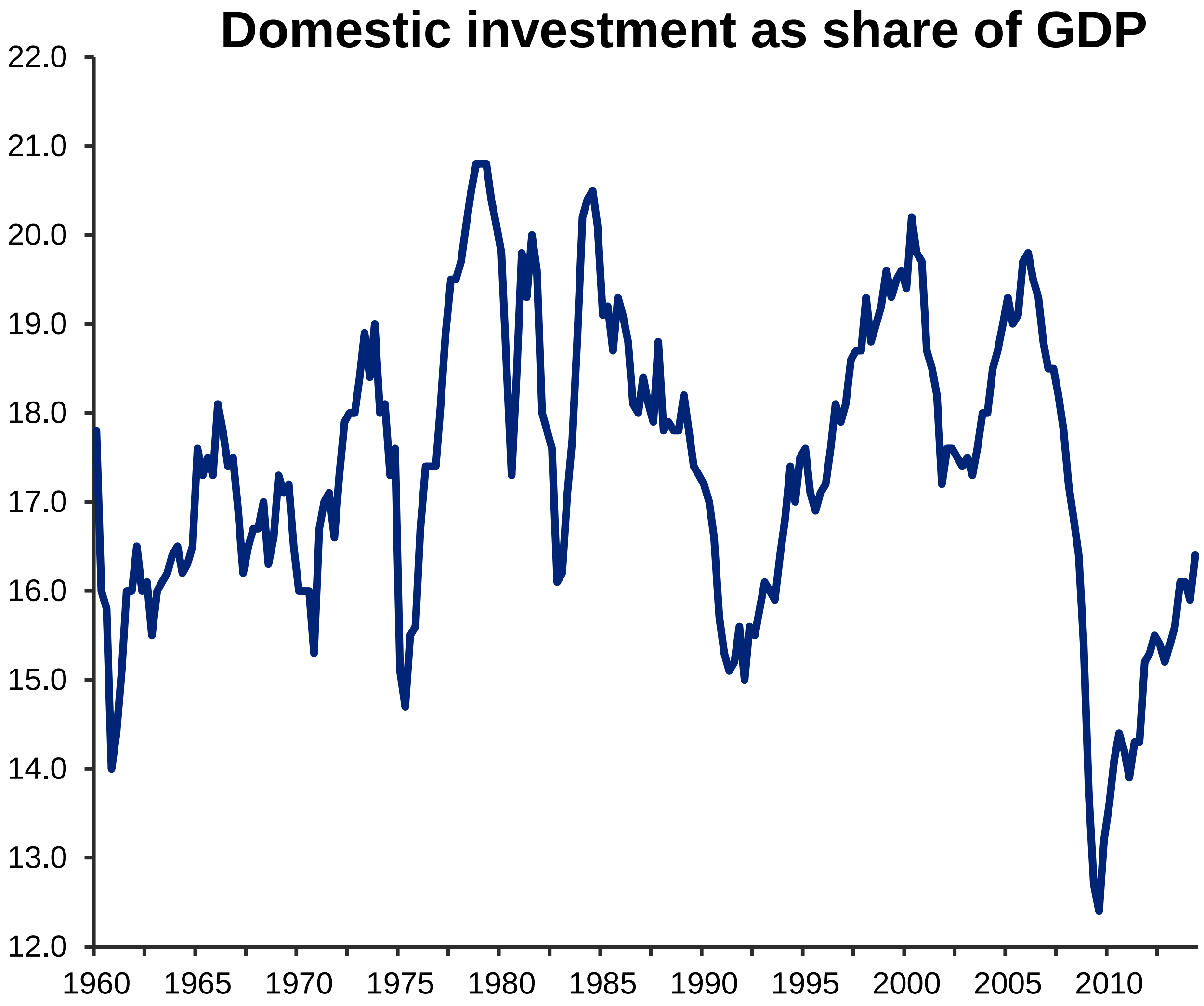
- Increased wealth
- Reduced debt
- Improved cash flow
- More jobs
- Lower energy prices



USA

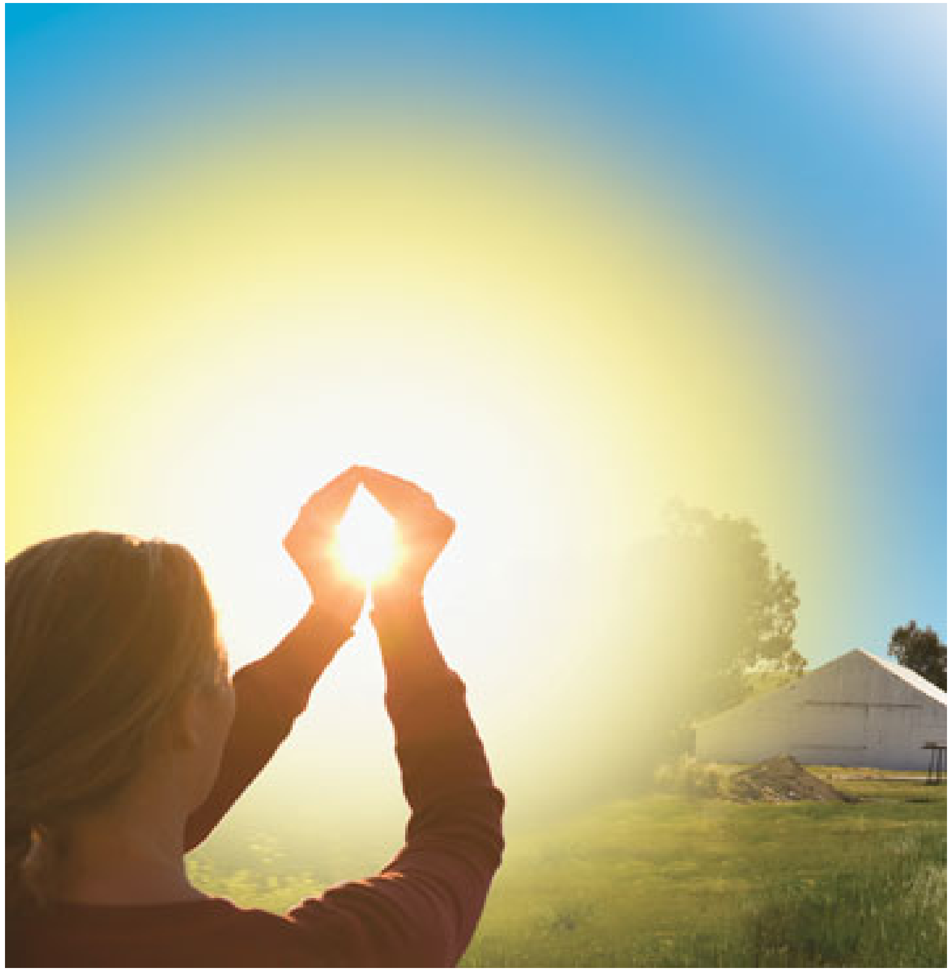
Business investment

- Investment collapsed during financial crisis
- Strong rebound still leaves investment low as share of GDP
- Hoarding cash as profits soar
- Weakness due to
  - Fears of deflation
  - Excess capacity in some industries
  - Weak overseas demand
  - The cloud



USA
Outlook

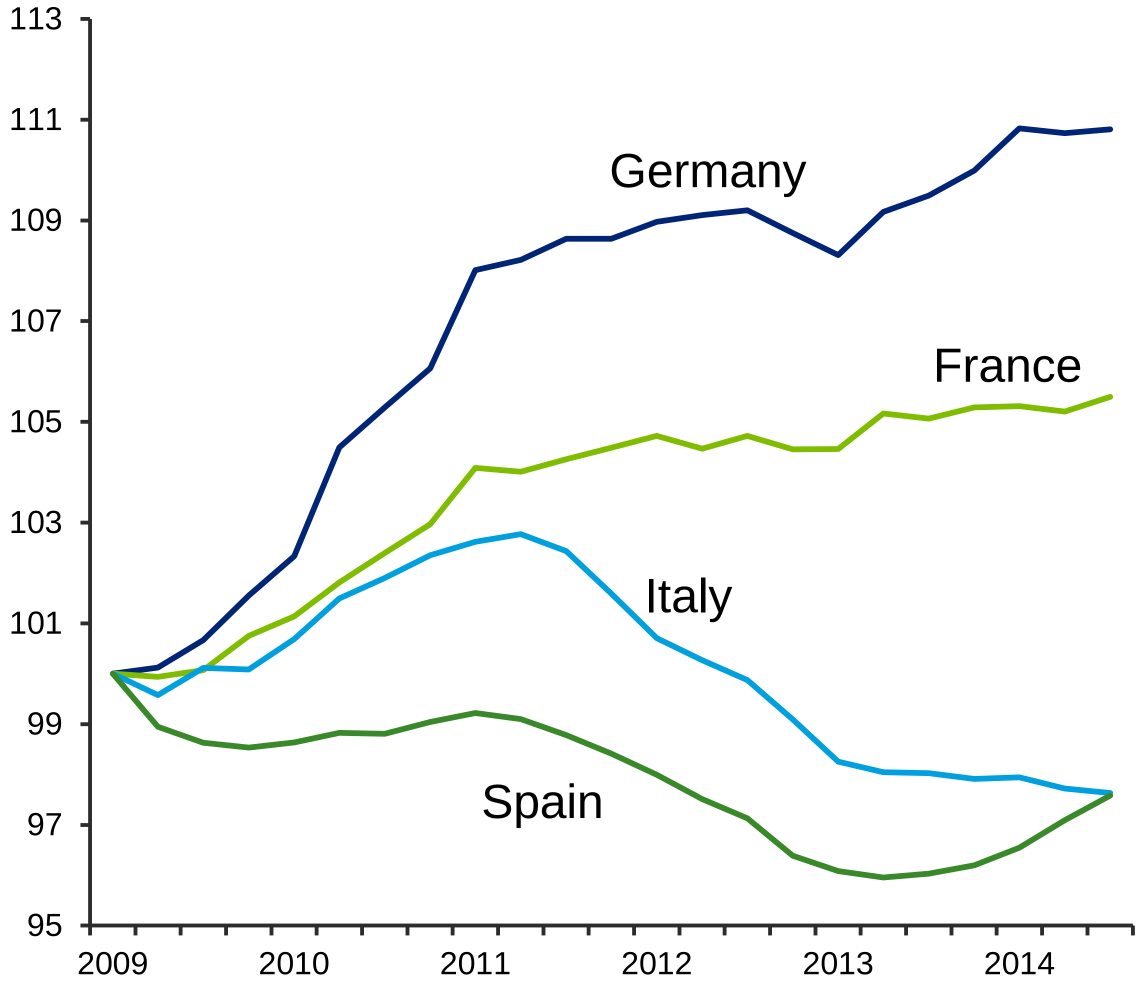
- No headwinds from fiscal policy
- Fed has limited impact
- Low energy prices
- Pent up demand for new homes
- Improved credit markets
- Risk comes primarily from Europe/China



Eurozone

- Since 2009, Germany has been the top performer
- Italy and Spain fell the most
- Spain is reviving while Italy is not
  - Improved competitiveness
  - Healthier banking system
- France has stalled
- All four under-performed in terms of GDP compared to the U.S. and UK

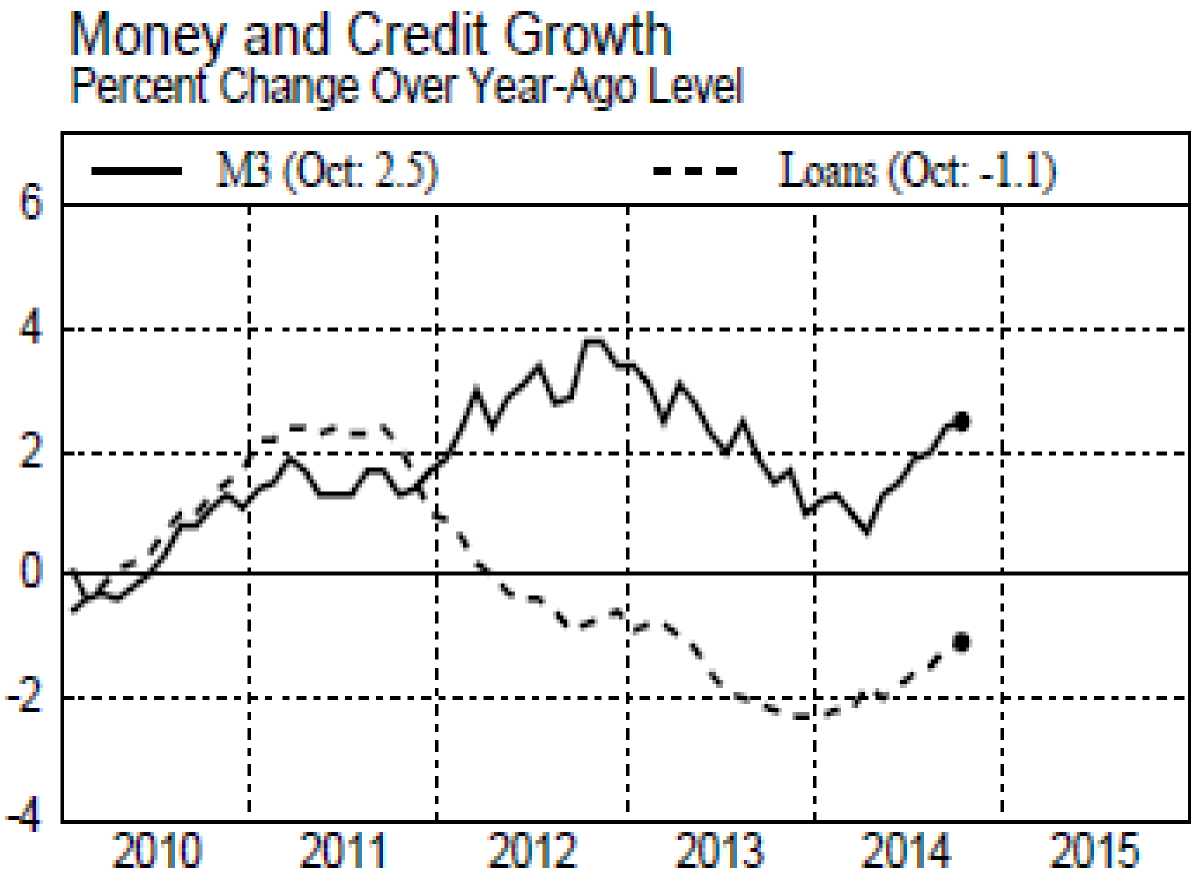
Real GDP in selected Eurozone countries
Index 2009=100



Eurozone

Why are credit markets troubled?

- Banks are selling assets and cutting back on lending to recapitalize
- Businesses reluctant to invest due to fear of deflation, weak demand
- Risk spreads due to fear of Eurozone failure

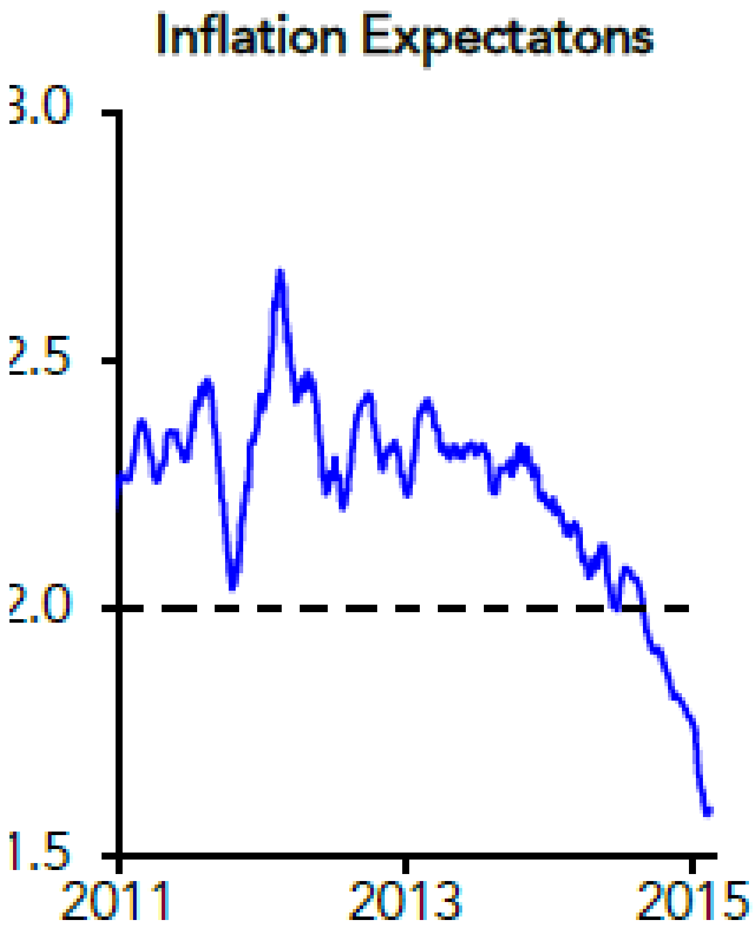


Source: Federal Reserve

Eurozone

ECB aims to reflate

- Very low interest rates
- Charge banks for holding cash
- Lend Euros to banks (although banks are not very interested)
- Purchase securitized assets
- Quantitative easing (with some restrictions)

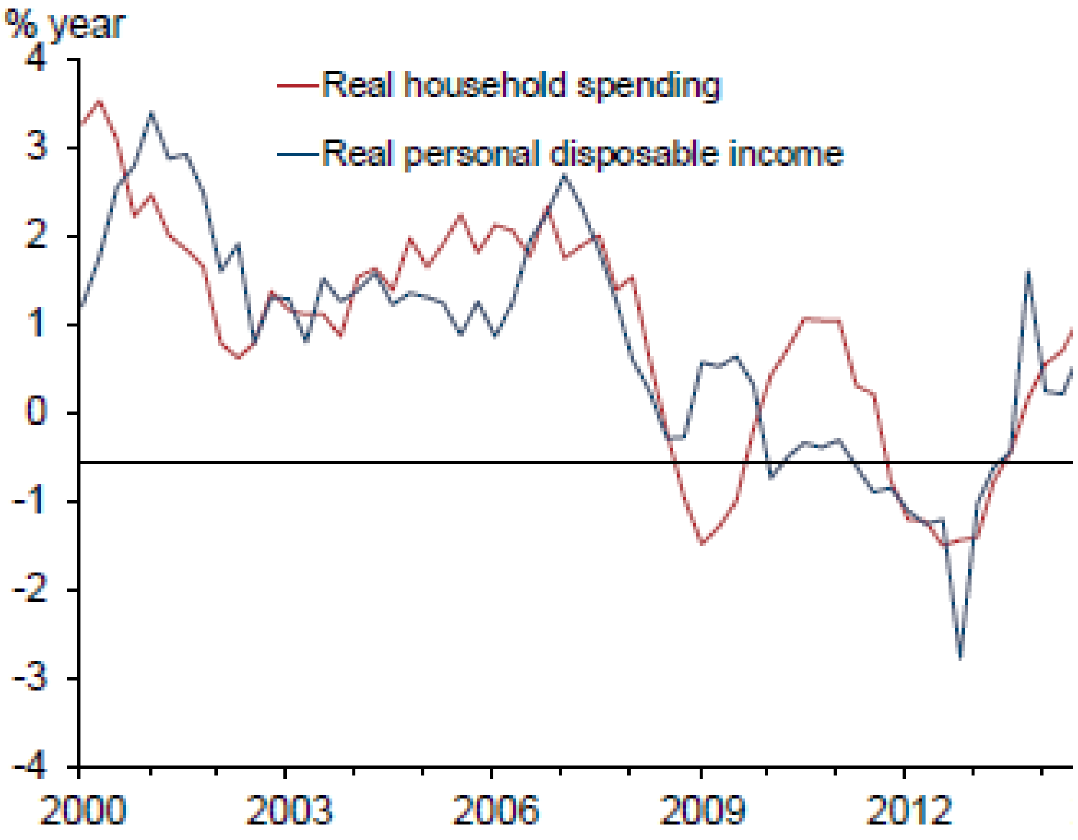


Source Oxford Economics

Eurozone
Signs of improvement

- Employment starts to grow
- Rising retail sales
- Stronger consumer confidence
- Positive impact of cheap oil
- Credit market conditions improve
- Rebound in industrial sector
- Strength in Germany, Spain, Ireland
- Still a long way to go

Eurozone household spending and income



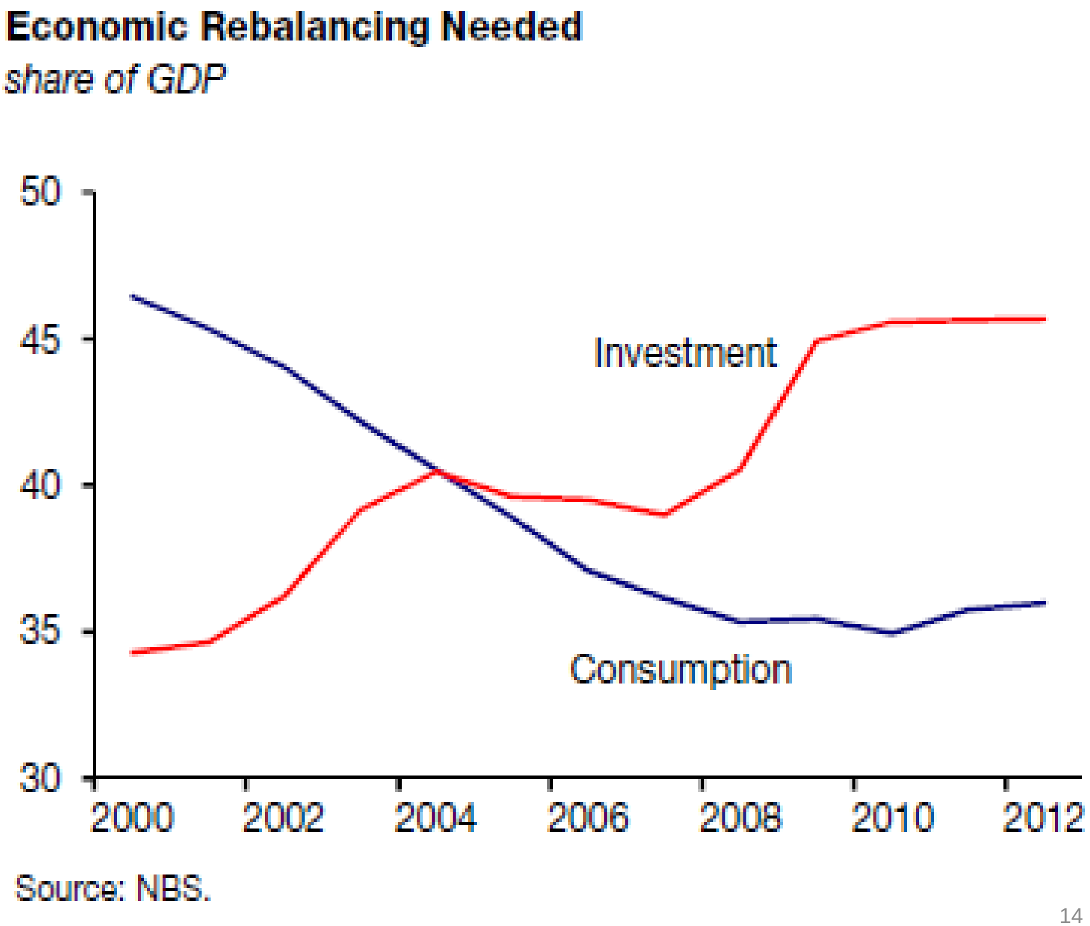
Source : Oxford Economics/Haver Analytics

Eurozone
Outlook

- Modest growth likely in 2015
- Continued tight fiscal policies
- Risks
  - Greece
  - Rise of anti-Euro and anti-EU parties in France, Spain, UK
  - Failure to reform in Italy and France
  - Failure of ECB to halt deflation

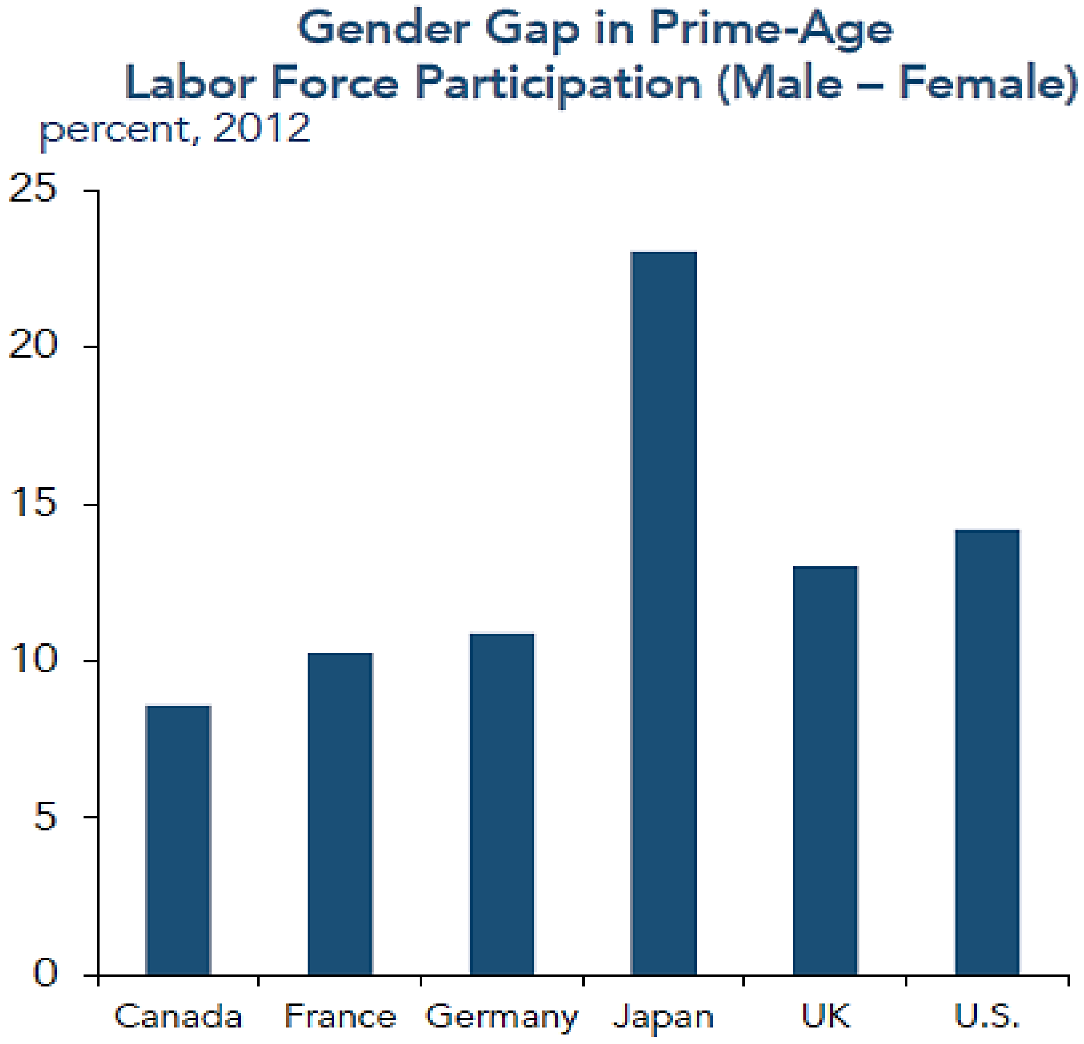
China

- Unbalanced growth not sustainable
  - Excessive investment driven by debt
  - $6.8 trillion in waste
  - Possible collapse of property market
  - Could lead to financial crisis
  - Labor shortage and rising wages
  - Low wage manufacturing departs
  - Slower growth



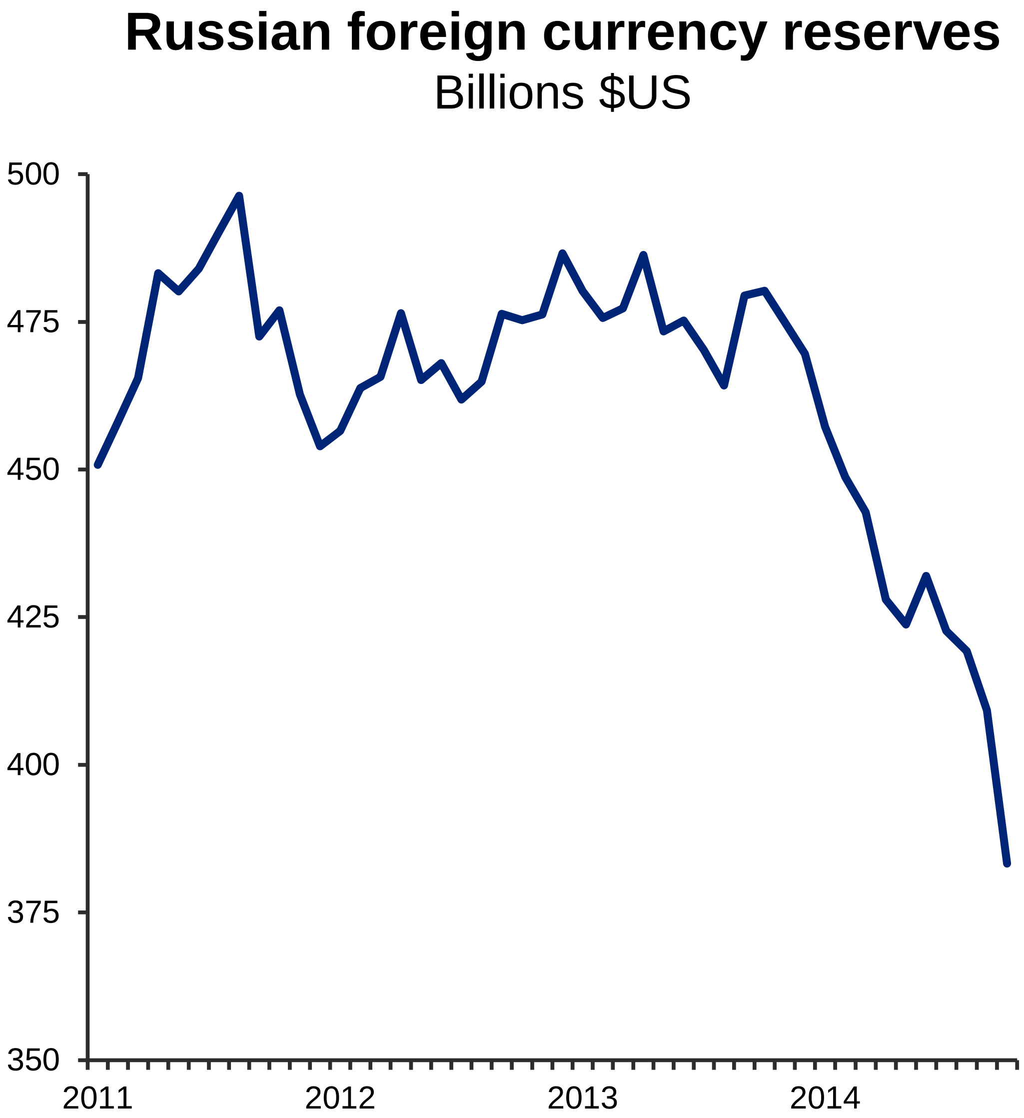
Japan

- Recession … again
- Exports weak despite cheap yen
- Wages not moving despite low unemployment
- Investment weak due, in part, to lack of confidence
- Bank of Japan boosts quantitative easing. Markets await reforms
- Female labor force participation is top priority



Russia

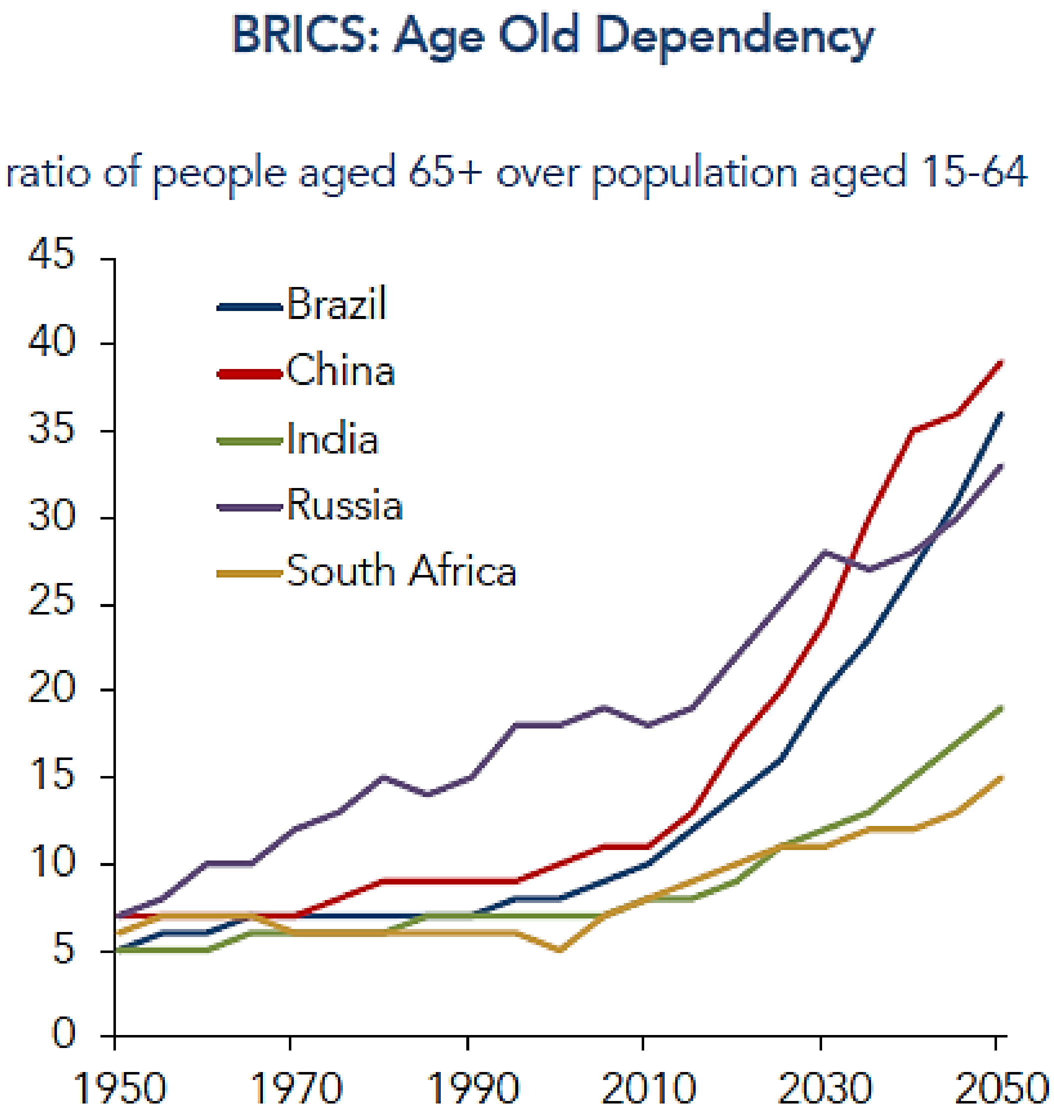
- Sanctions
  - Companies/Banks cannot roll over external debts
  - Energy companies cannot obtain technology
- Declining oil price
  - Sharp drop in value of ruble
  - Central bank increased interest rates, then cut rates
  - Inflation increasing, GDP falling, investment shriveling
- Outlook
  - Recession in 2015. When oil rebounds, Russia benefits
  - Longer term, bad news if sanctions remain



India

Modi's election raised hopes

- Tight monetary policy reduces inflation
- Demographics is India's sweet spot
- Goal is to free the market in order to spur investment
- Government begins process of reforms. Growth picking up speed

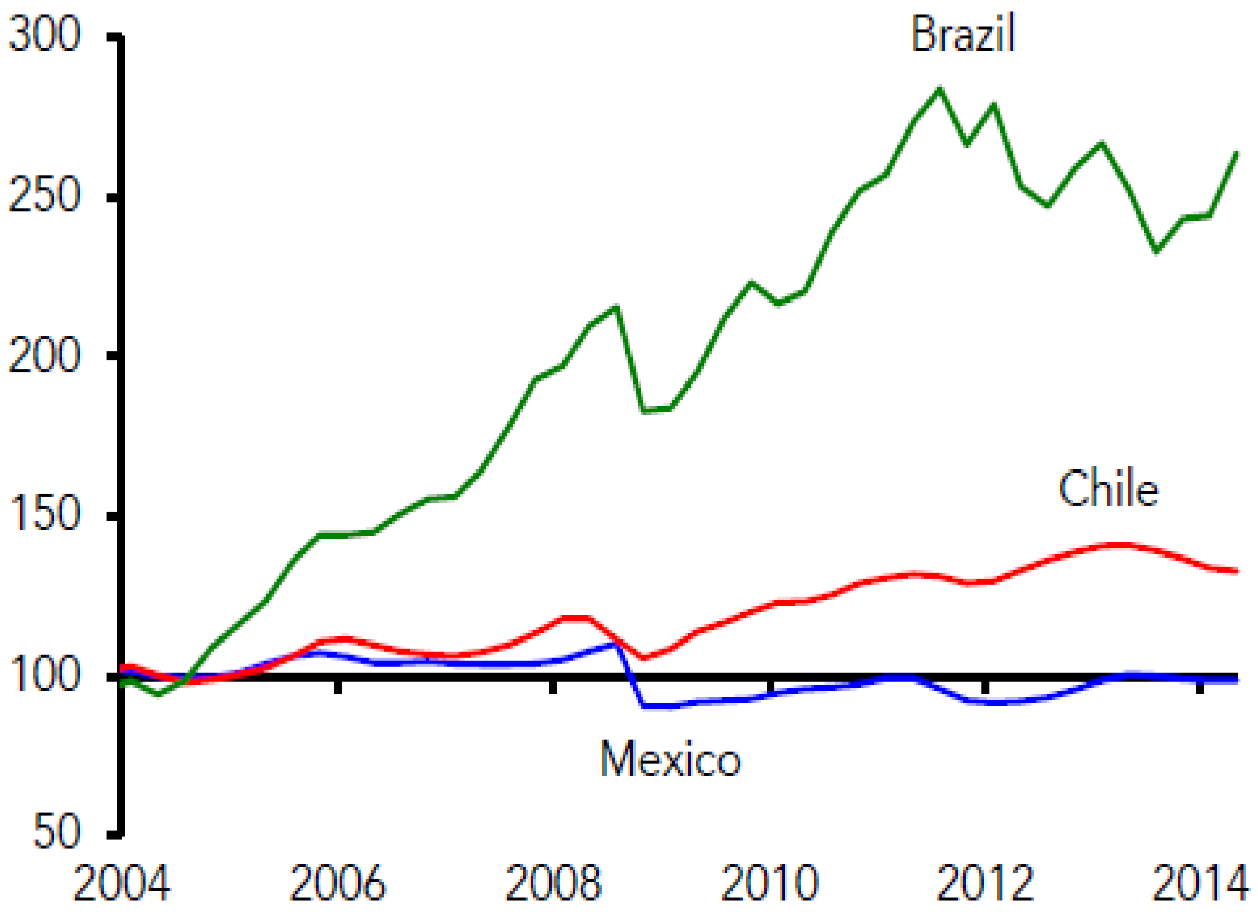


Source: Institute of International Finance

Americas
Brazil

- Loss of competitiveness
- Declining commodity prices
- Declining value of currency
- Excessive inflation
- Tight monetary policy
- Rousseff stated intention to reduce spending and loosen regulations

Unit Labor Costs
index (2004=100)



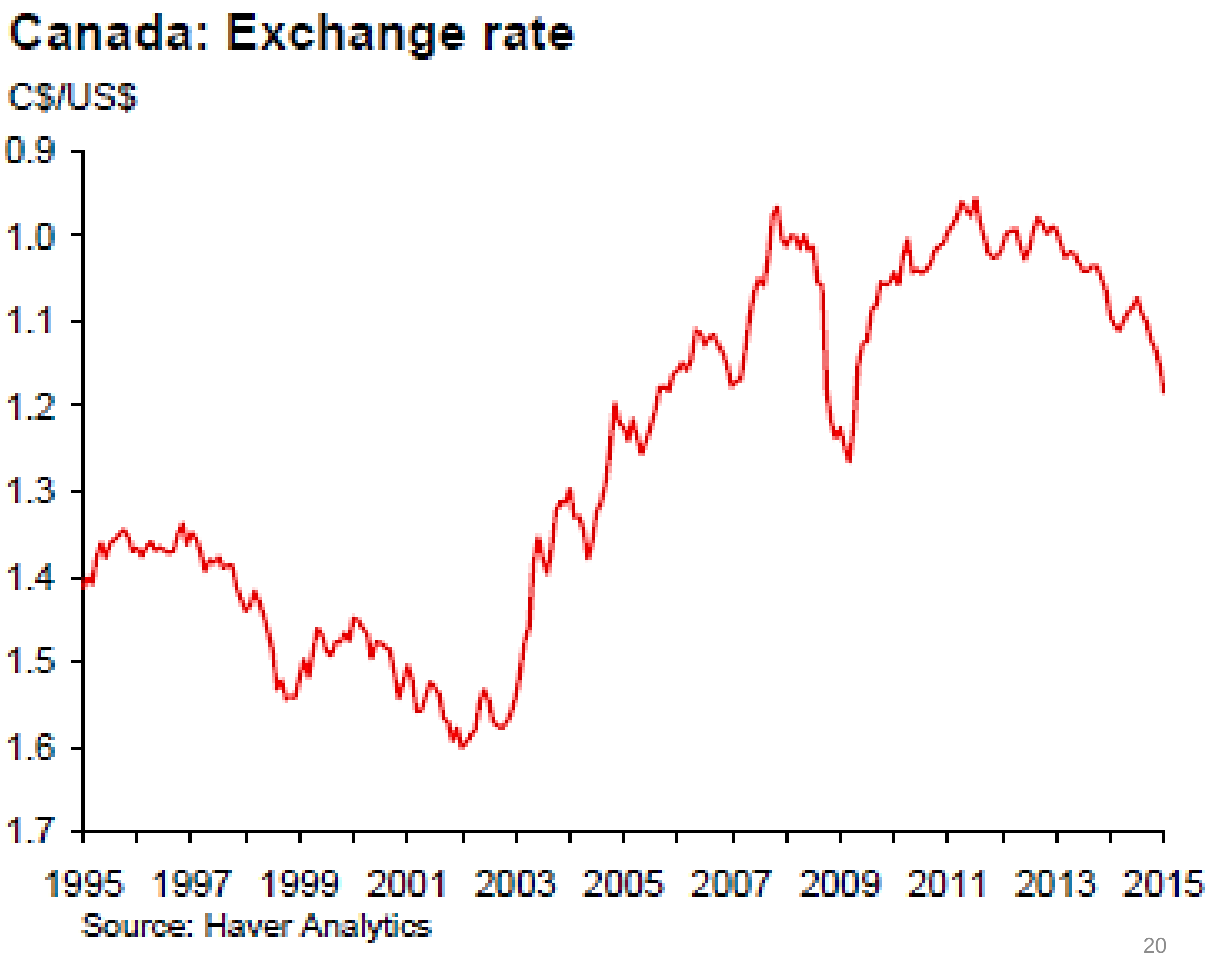
Americas

Mexico

- Deregulation of various industries
- Allow foreign investment in energy
- Manufacturing gains as China moves up value chain
- Revival of U.S. economy helps
- Growth outlook positive
- Risk
  - Corruption scandal weakens government resolve

Americas
Canada

- Energy sector hurt by drop in oil prices
- Central bank cuts rates to ease credit market conditions, suppress currency, help manufacturing
- Employment growth was weak in 2014, but real wage growth is accelerating due to low inflation
- Household debt remains high
- Outlook: Moderate growth



Expectations
The world in 2020

- Eurozone starts to come apart
- U.S. economy overheating, on path toward next recession
- China at crossroads with slower growth, inadequate reforms
- Technology disruption to business accelerates
- Strong markets: India, Mexico, Southeast Asia, Andean region, Africa
- Weak markets: Russia, Brazil, Central Europe, Middle East, Japan

Please remember to complete your evaluation

Speaker bios

Ira Kalish is Chief Global Economist at Deloitte Touche Tohmatsu Limited. He is a specialist in global economic issues as well as the effects of economic, demographic and social trends on the global business environment. He has written about the economies of Western Europe, Eastern Europe, Southeast Asia, China, Japan, Mexico, and South America, and has also written extensively on global consumer markets.

Among Dr. Kalish's recent publications were the quarterly Global Economic Outlook of which he is the managing editor; the annual Global Powers of Retailing report; China and India: Comparing the World's Hottest Consumer Markets; China and India: The Reality Beyond the Hype, Budget Deficits: Why All the Fuss, an article in CFO Journal, and Mind The Gap, an article in Deloitte Review on changing income distribution.

Dr. Kalish advises Deloitte clients as well as Deloitte's leadership on economic issues and their impact on business strategy. In addition, he has given numerous presentations to corporations and trade organizations on topics related to the global economy. He is widely traveled and has given presentations in 46 countries on six continents.

Prior to his work at Deloitte, Dr. Kalish was chief economist at Retail Forward, a director at PwC, vice president at Bankers Trust, corporate economist at the Eastman Kodak Company, and researcher at the Institute for International Economics.

Dr. Kalish holds a bachelor's degree in economics from Vassar College and a PhD in international economics from Johns Hopkins University.

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