

Worldwide recession – How deep, how long?



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August 2009

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Agenda

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Conclusion – the world in trouble



1 The Global Economy

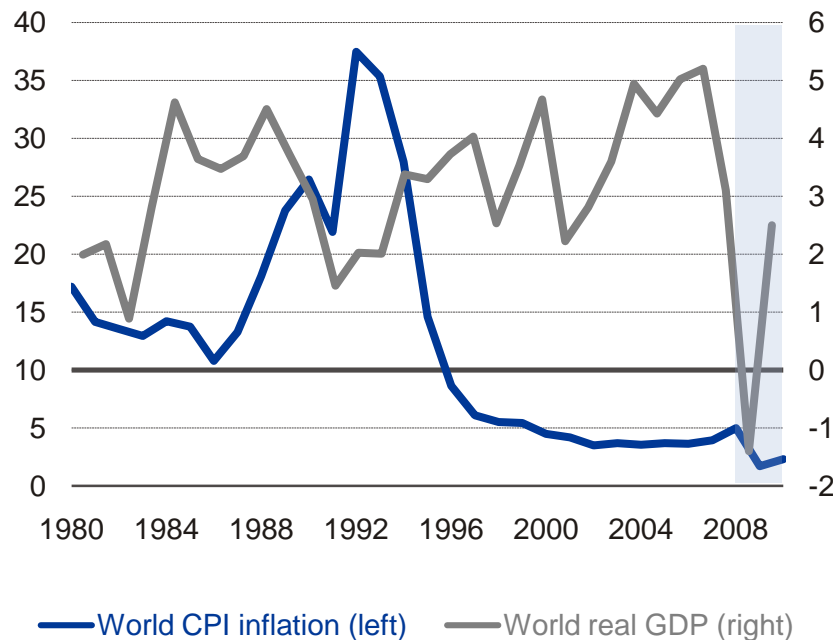
A synchronized crash



Any evidence for recovery?

World reached the bottom

% yoy



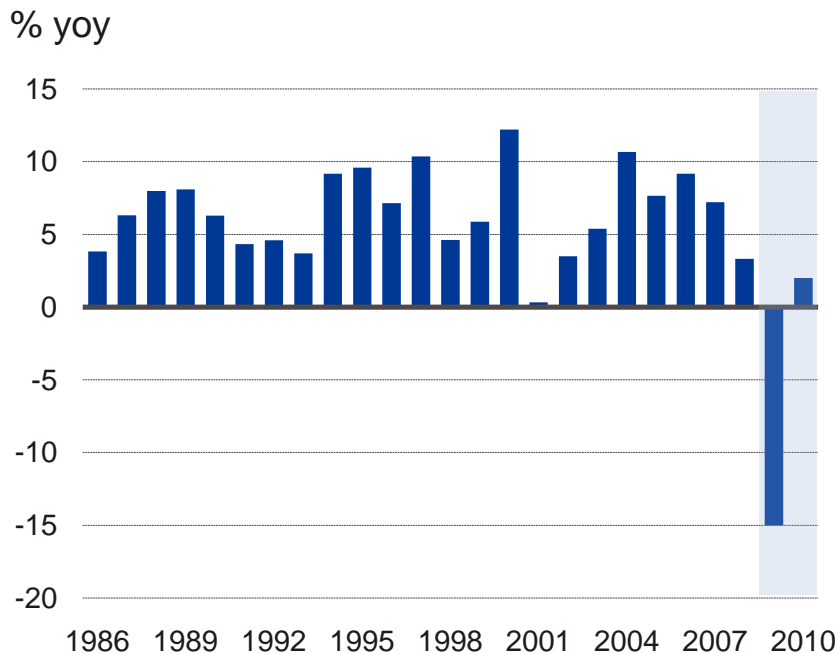
Sources: IMF, DB Research

- Global growth is expected to decline by 3% in 2009, due to a never before seen decline in real and financial activity
- Recent numbers indicate a modest recovery as of H2 09, thanks to supportive signals from Asia
- Inflation has come down to almost zero in line with the increasing output gap



Dramatically shrinking trade volumes

Trade declining with double digits



Sources: IMF, DB Research

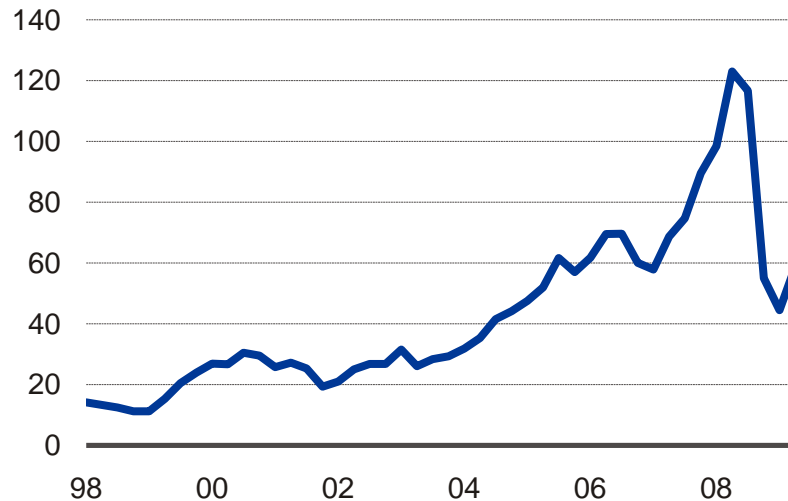
- With declining growth, the global trade volume is likely to contract by 10-15% in 2009
- Recent data suggest that the bottom has now been reached and trade growth will resume in 2010
- However, due to taxpayers money thrown at ailing companies, rising protectionism may endanger growth of global trade



Oil price suffers from demand shock

Brent Oil Spot Price

in Dollar



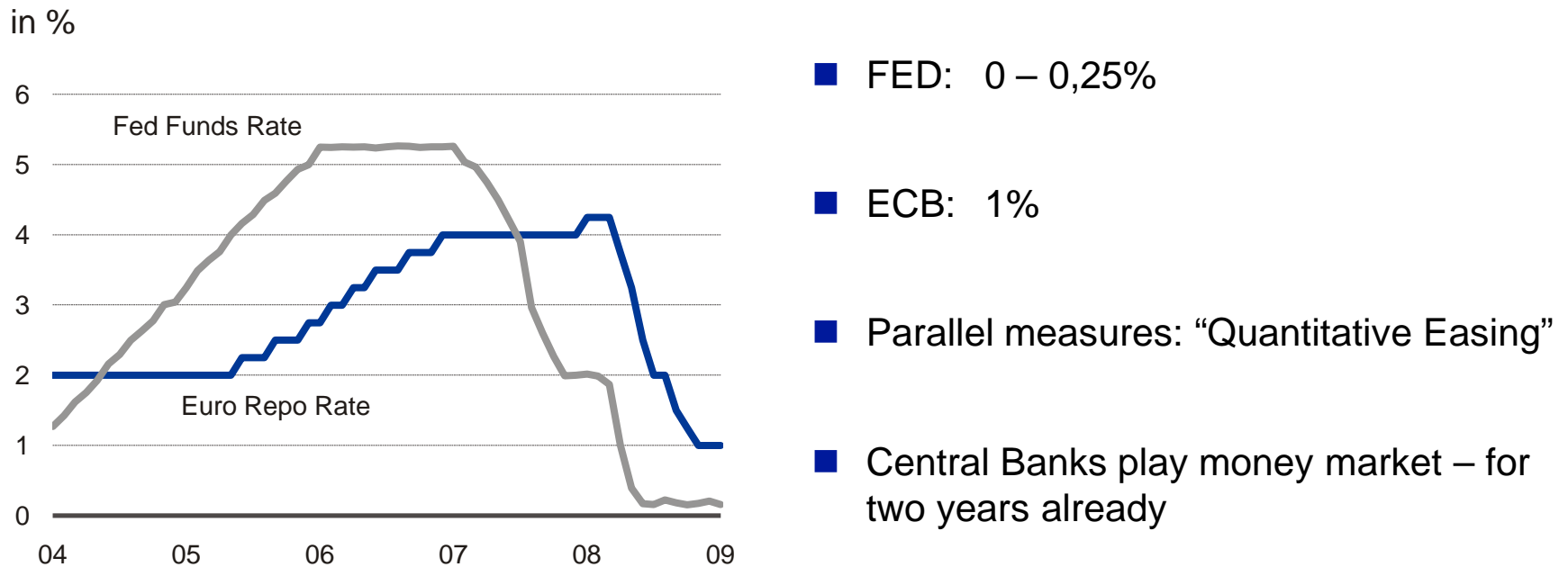
Source: DB Research

- Shrinking demand on world markets led to a huge fall in oil prices
- Oil- exporting countries are significantly affected, especially after high windfall gains before
- Investments in the exploitation of new (fossil) sources have been postponed



Monetary policy in quantitative easing mode – interest rates around zero

Central Bank interest rates



Source: DB Research



2

The US Economy

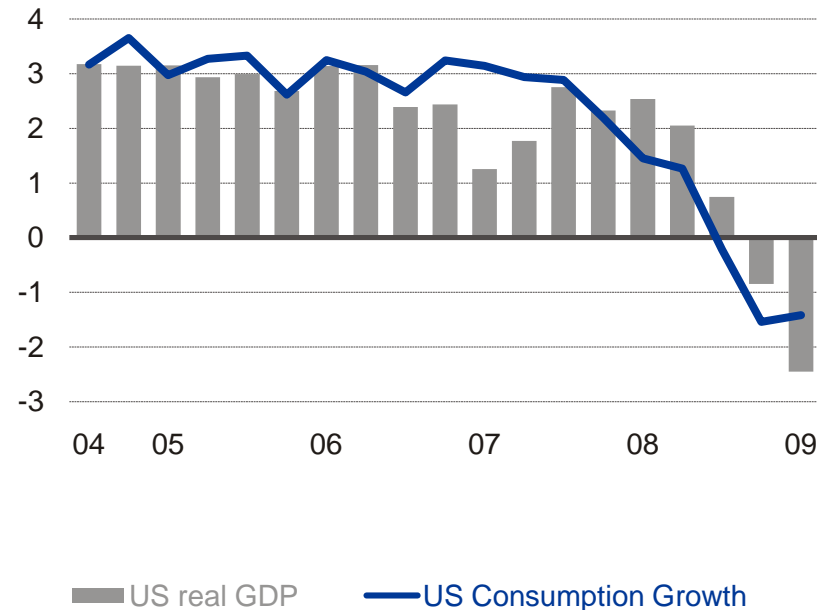
Bold push to leave recession behind



GDP reached a floor – unemployment on the rise

Fall in economic activity led to...

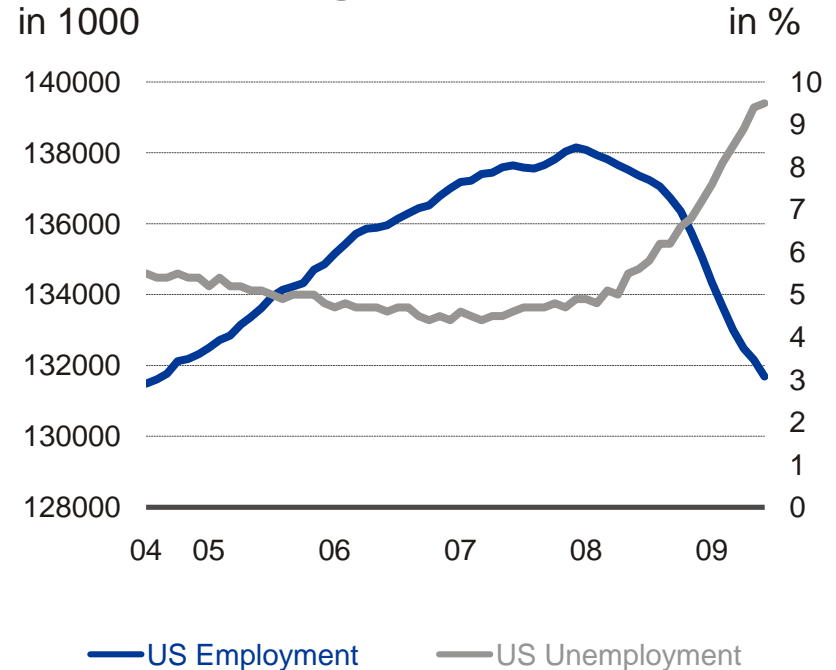
% yoy



Source: DB Research

...an imploding labor market

in 1000



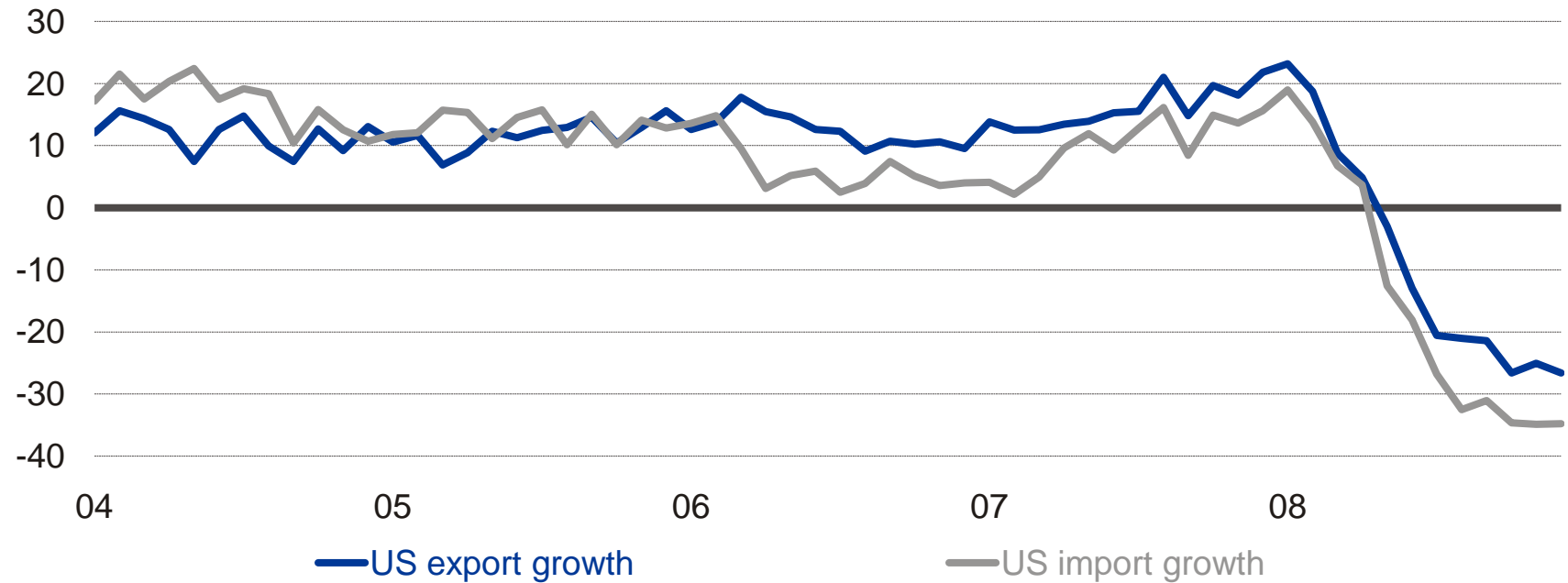
Source: DB Research



Deteriorating trade volumes – current account deficit shrinks starkly

Collapse of trade - Danger of rising protectionism?

% change yoy, 3Mmov. avg



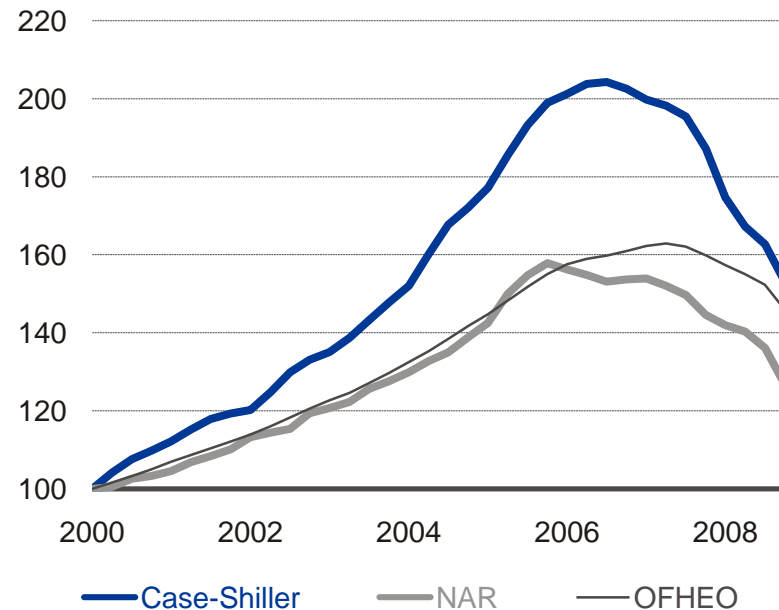
Source: DB Research



Private Sector: House prices collapsed – debt services still high, despite low interest rates

US house prices are falling

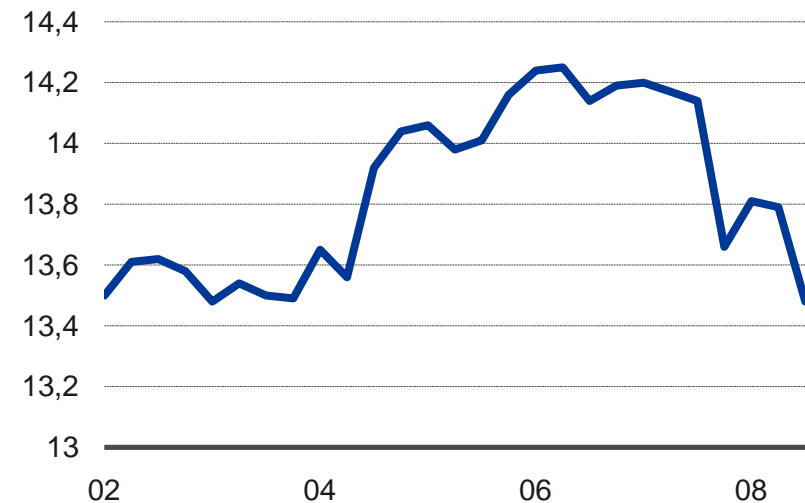
House price indices, 2000=100



Sources: S&P, NAR, OFHEO

Don't be carried away

Ratio of debt service to disposable income



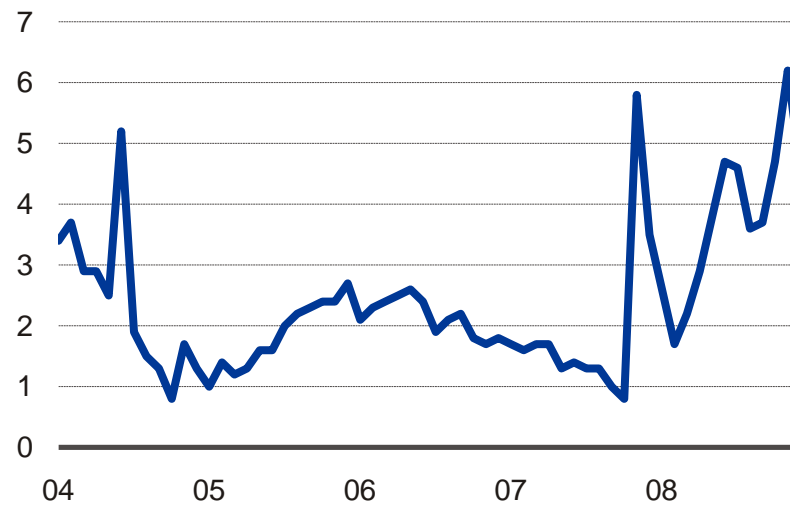
Source: WEFA, DB Research



Households start to save – indication for a changing attitude

Private Savings increase

in % of personal disposable income



Source: WEFA, DB Research

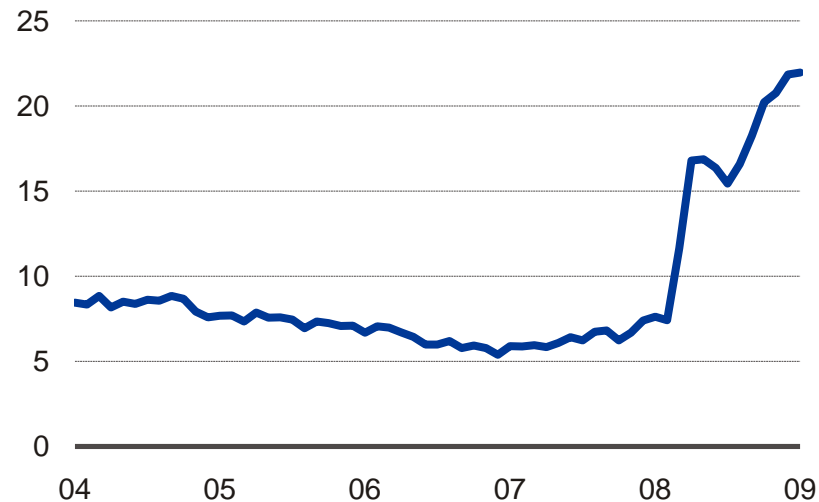
- after years of extensive consumption and a savings rate around zero, households have recently started to increase their savings
- this change of behavior can be explained by
 - perceived economic risks (unemployment)
 - loss of wealth and confidence with falling house prices and crash on stock markets



Public Sector: huge deficit but low credit costs – will it last?

Exploding Public Debt...

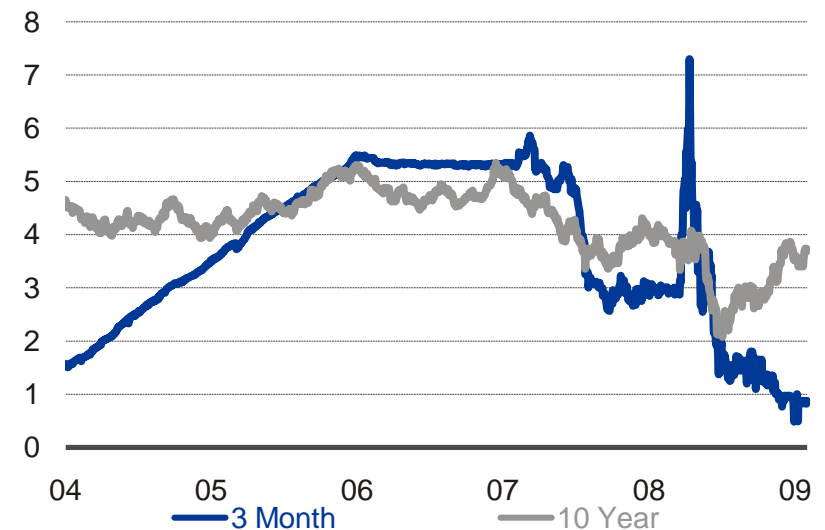
in % change



Source: DB Research

... with Bond rates still low

in %



Source: DB Research



3

The Euro Economy

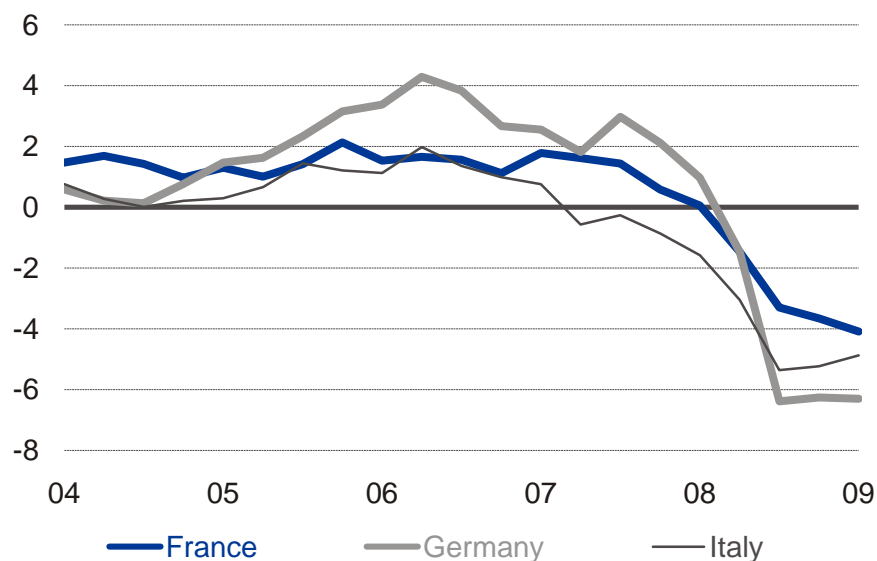
Snap back not excluded



Euro economies far below potential – Any recovery in sight?

Real GDP found a floor in mid 2009...

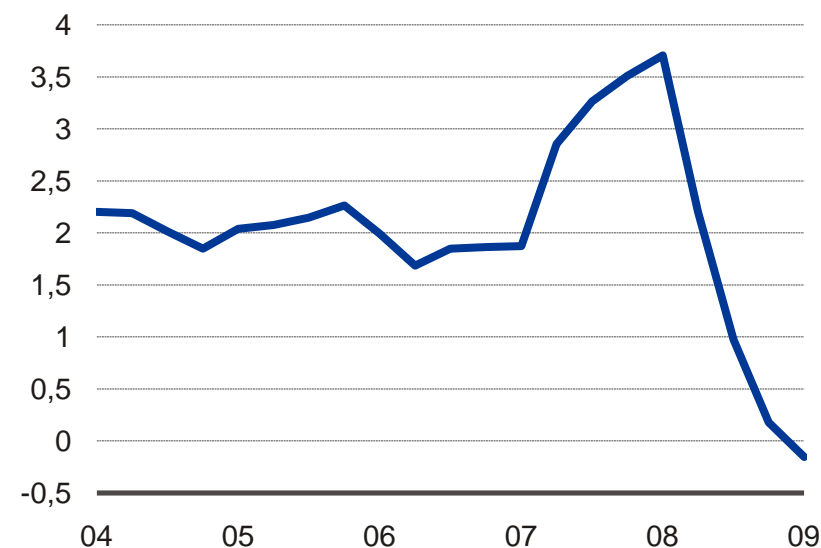
% change yoy



Source: WEFA, DB Research

... with inflation below zero

in % change yoy



Source: WEFA, DB Research



Expensive Euro helps US – and hurts Europe

Real Effective Exchange Rate

Index



Source: ECB, DB Research

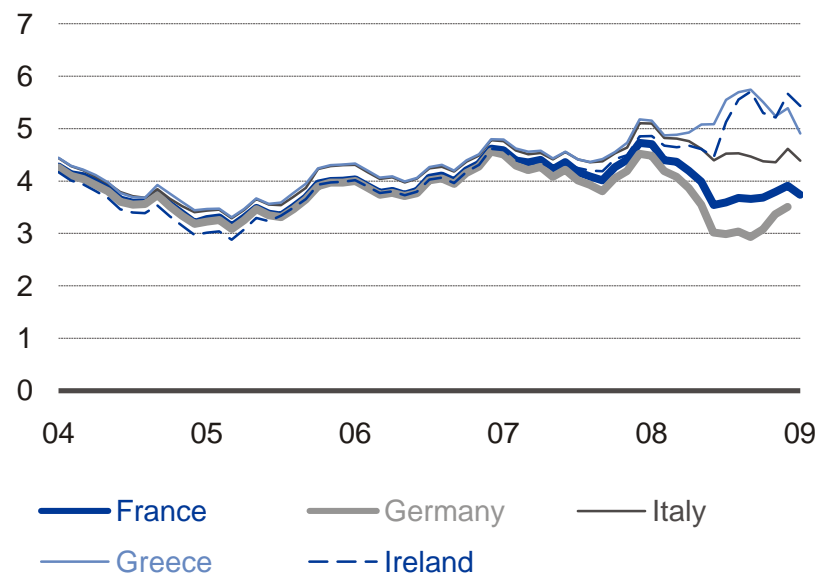
- The weakening US Dollar hurts export-oriented economies all across Europe
- In May 2009, the export value of Eurozone-countries fell by a record 24% year-on-year
- With the Dollar expected to remain weak, export growth in Euroland is expected to rebound only slightly towards 2010-11



European Monetary Union in danger to fall apart?

Diverging Bond yields...

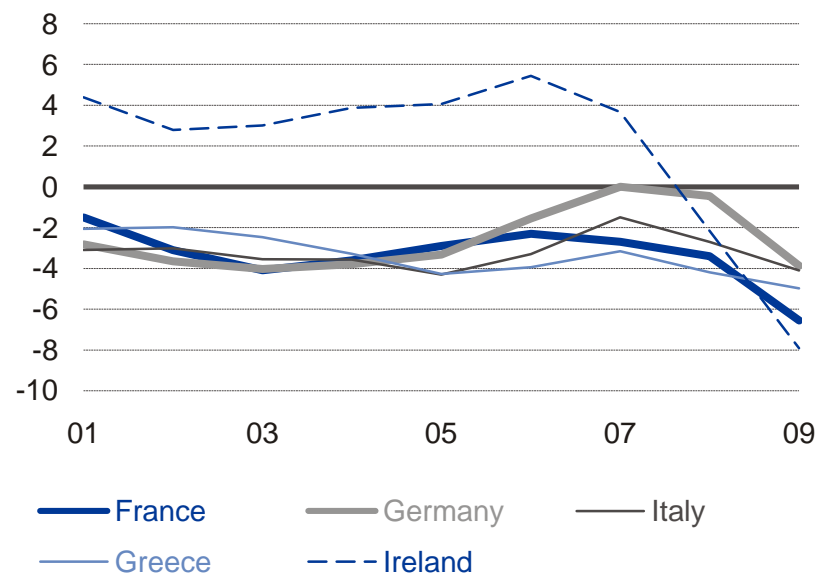
in %



Source: WEFA, DB Research

... reflect different fiscal positions

in % of GDP



Source: WEFA, DB Research



Fiscal Stance in Europe unsustainable...

- Housing and financial bubbles have forced some States to set up rescue packages for banks worth hundreds of billion Euros
- Huge fiscal deficits in most countries lead to rising and often even unsustainable debt-to-GDP ratios
- Such perspectives make it most likely that the Euro economy is growing below its low potential in the foreseeable future.



4 Emerging Markets

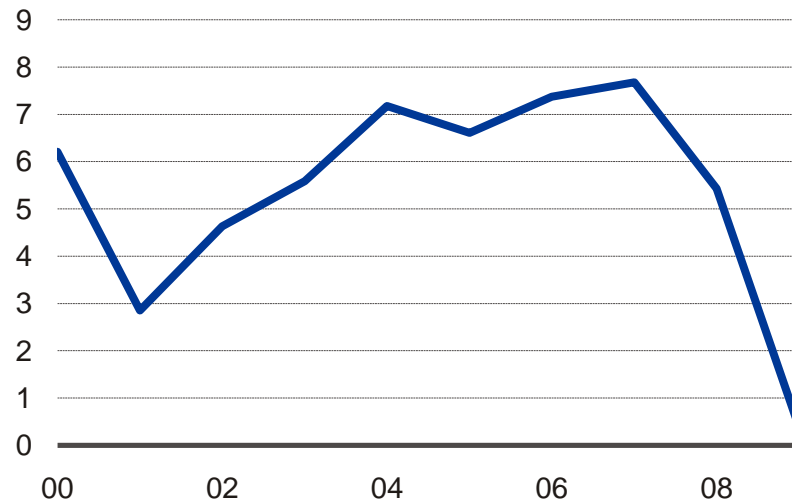
Already back on track



EM & Asia: Rising importance in the global economy

Emerging Markets in free fall...

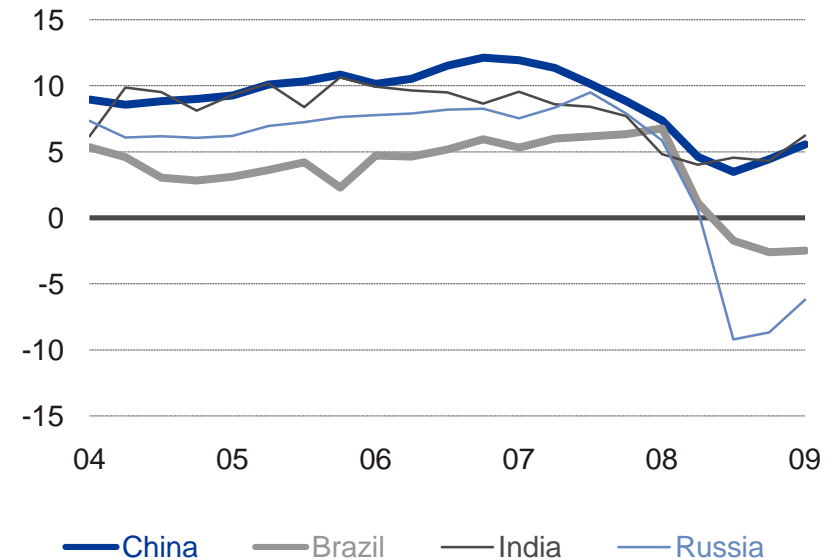
Real GDP growth yoy



Source: DB Research

...but with different prospects!!

Real GDP growth in % change yoy



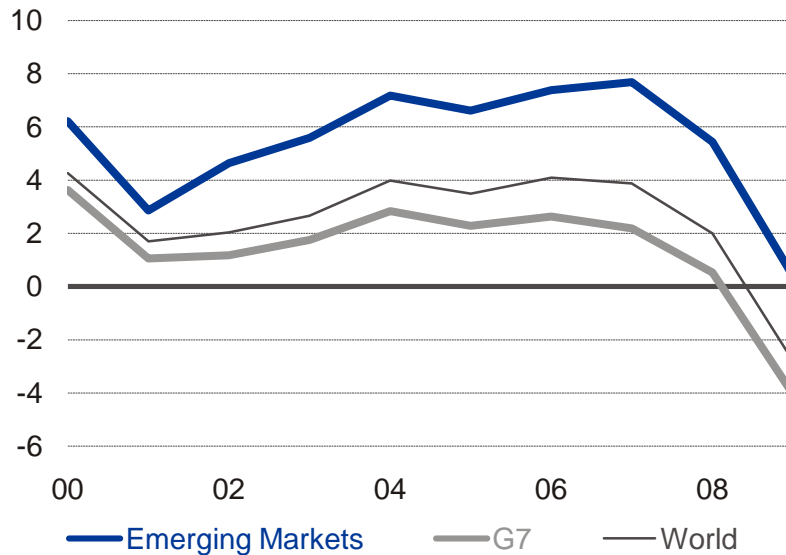
Source: WEFA, DB Research



Will Asia save the world?

EM's performance poor but still best in crisis

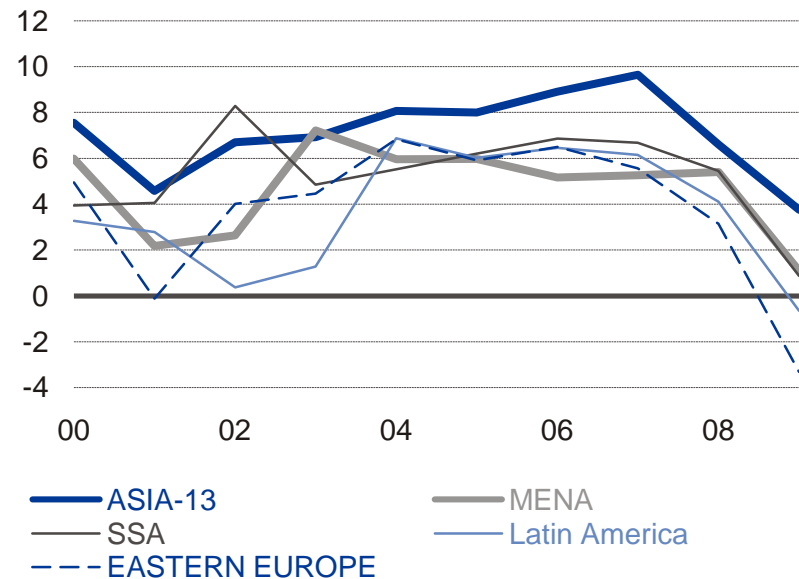
Real GDP growth in % change yoy



Source: WEFA, DB Research

Asia-13 dominate other regions

Real GDP growth in % change yoy



Source: WEFA, DB Research





Will Emerging Economies help developed countries to escape the crisis?

- Emerging Countries have been hit in different ways
 - Declining trade flows
 - Financial vulnerabilities
 - Substantial fall of remittances
- Raw material abundant economies have bigger problems than others (for example Russia) with falling energy prices
- Large economies like China seem to have substituted external demand with domestic programs to stimulate the economy
- Small export-oriented economies hit by global trade implosion
- Asia as a whole is in a better economic shape than other EM's



5 Philippines

Risks of reform slowdown in 2010



Think Tank of Deutsche Bank Group

Deutsche Bank Research

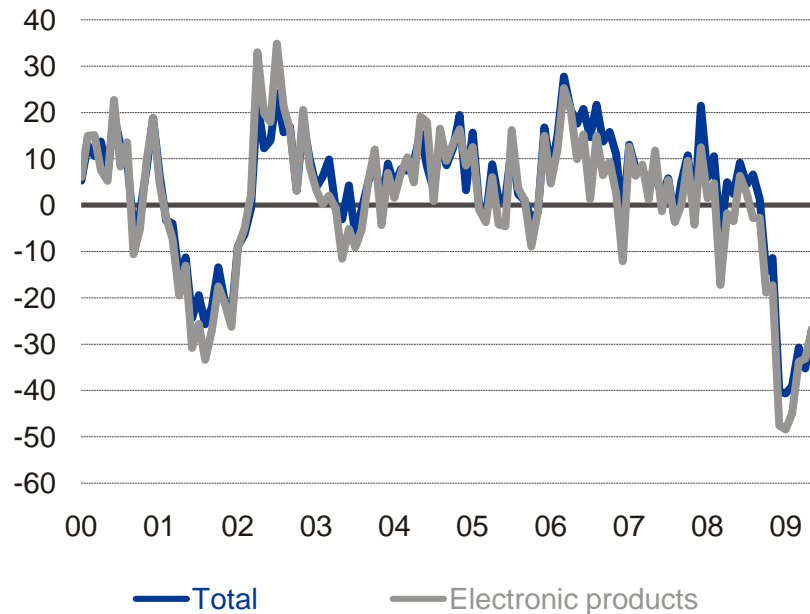




Remittances steady, exports down

Exports hit hard by waning global demand

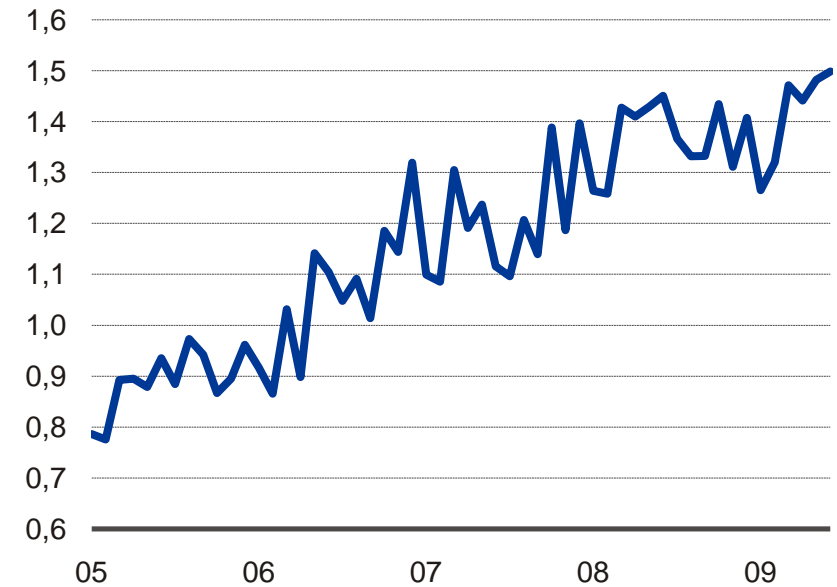
% yoy



Source: CEIC data

Overseas workers' remittances still on upward trend

USD bn



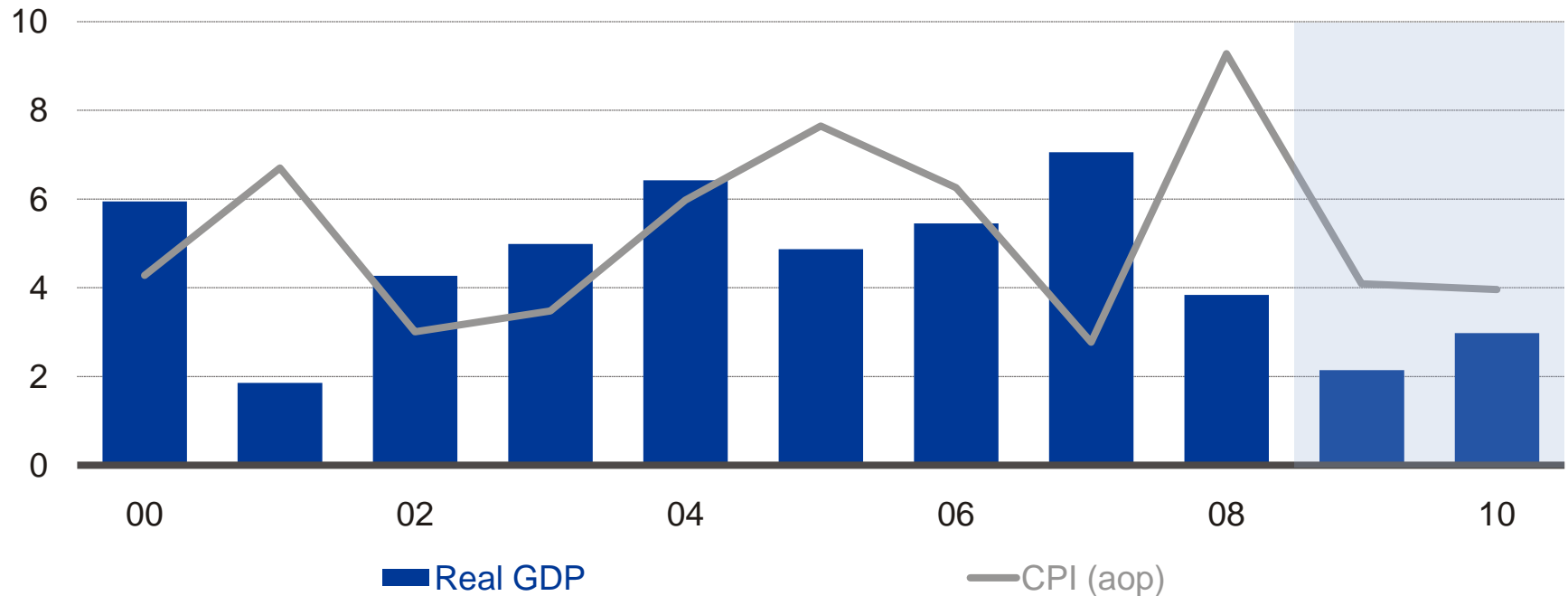
Source: CEIC data



Prolonged recession in G3 economies as main downside risk

Growth performance to suffer from global recession

% yoy



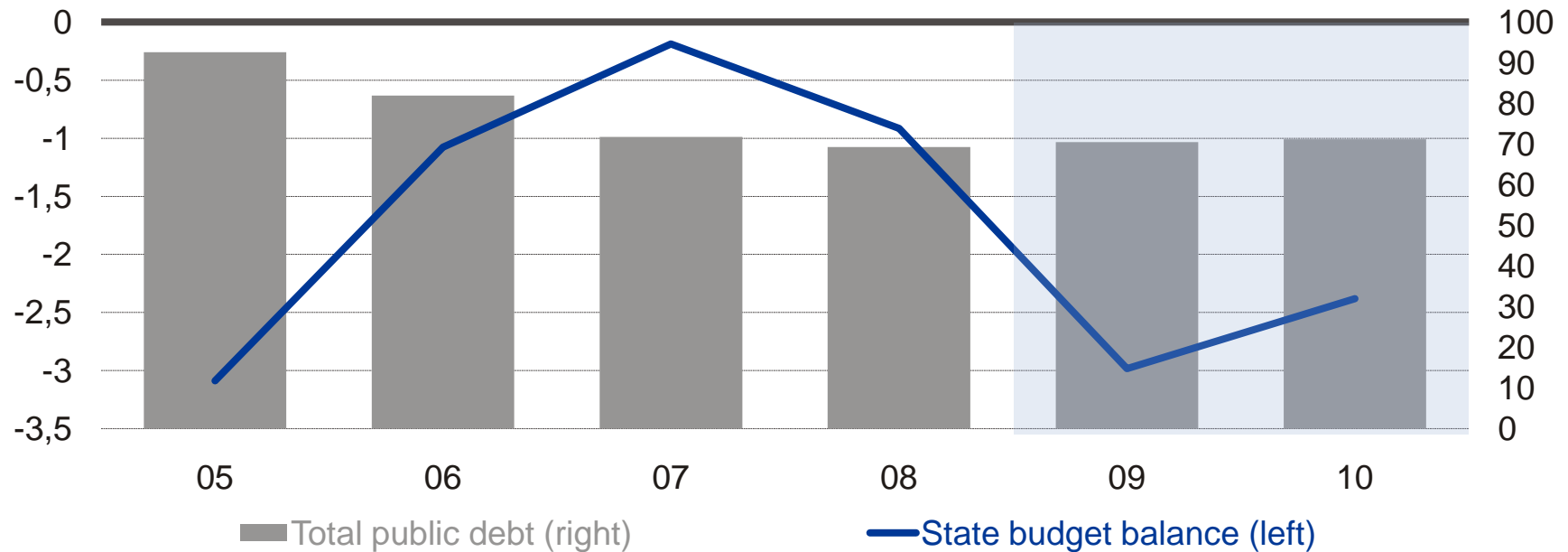
Source: DB Research



Weak fiscal position limits room for stimulus

Balanced budget postponed

% of GDP



Source: DB Research

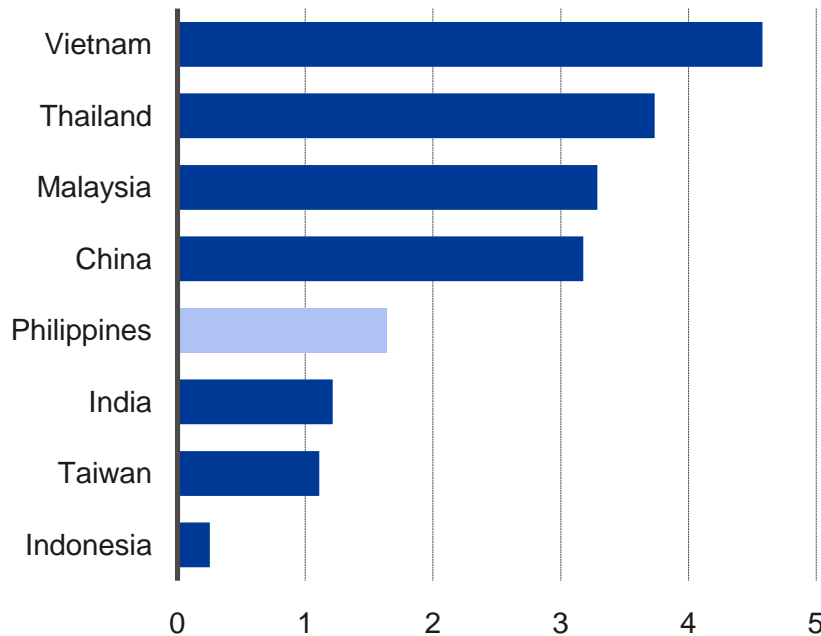




Some challenges for new political leadership

Room for further improvement

FDI inflows, % GDP (avg 00-07)



Sources: UNCTAD, DB Research

- Elections in 2010
- Business environment has to be improved
- Capital markets need further development
- More foreign direct investment necessary



6

Conclusion

The world in trouble



The most important question - How can we escape the crisis?

- More international cooperation for financial supervision and environmental agreements is needed
- Divergence of monetary policy – will the ECB be the only central bank that is serious about the exit strategy?
- A new consensus has to be achieved in how to face demographic challenges in industrial countries and in which way the globalization process should be revitalized in the future





Global downside risks – Poor regulation of financial markets and the environment

■ Environmental Policies

- Will Copenhagen 2009 fail?
- Will reduce governments' capability to meet social and other requirements
- How to organize technological support for Emerging Markets?

■ Financial Markets

- Will the G-20 conference in Pittsburgh 2009 fail?
- Supervision and regulation at the appropriate international level
- While implementing the necessary, politicians should, however, pay attention to avoid over-regulation.
- Better equity – capital ratios to be established at the wrong time, i.e. more procyclicality?





Global downside risks – Protectionism and Ageing endanger growth opportunities

■ Protectionism

- will further diminish trade volumes
- A renaissance of the Doha- round to reduce trade barriers is of the essence

■ Ageing

- War of generations
- Lack of young damages entrepreneurial spirit
- Will societies accept new work-life concepts and social reforms?
- How to organize migration in coming years?





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