

# Worldwide recession – How deep, how long?



Prof. Dr. Norbert Walter

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Think tank of Deutsche Bank Group

**Deutsche Bank Research**



# Agenda

**1**

**The global economy – a synchronized crash**

**2**

**USA – bold push to leave recession behind**

**3**

**Euro area – snap back not excluded**

**4**

**EMs – already back on track?**

**5**

**Philippines – risks of reform slowdown in 2010**

**6**

**Conclusion – the world in trouble**



# **1** The Global Economy

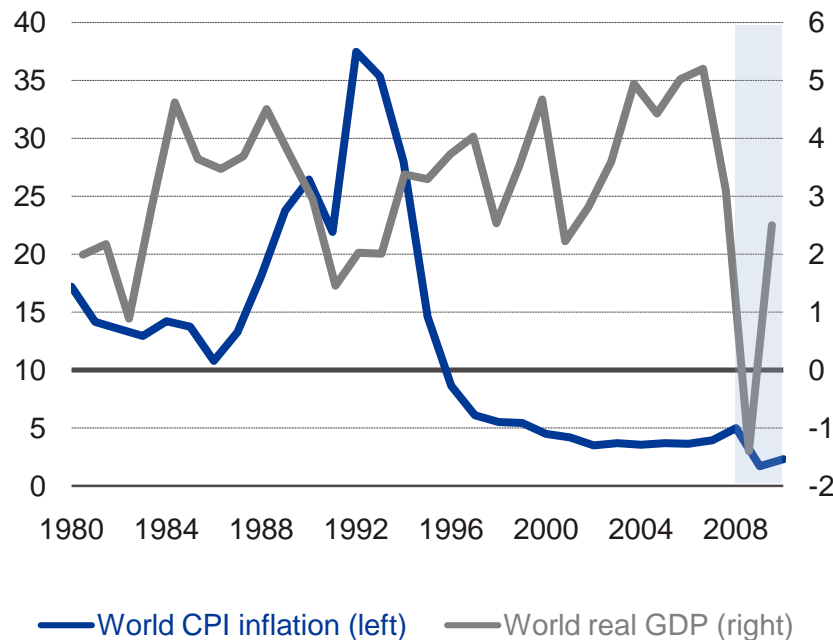
**A synchronized crash**



# Any evidence for recovery?

## World reached the bottom

% yoy



Sources: IMF, DB Research

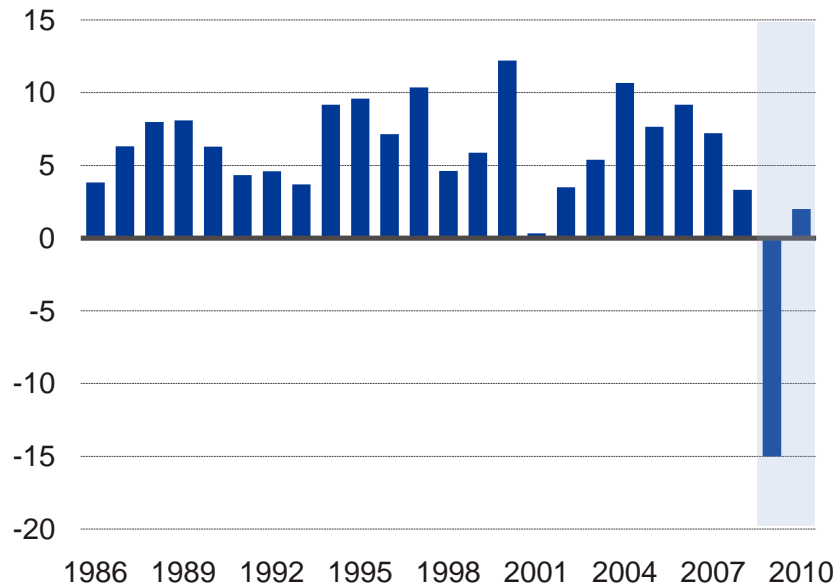
- Global growth is expected to decline by 3% in 2009, due to a never before seen decline in real and financial activity
- Recent numbers indicate a modest recovery as of H2 09, thanks to supportive signals from Asia
- Inflation has come down to almost zero in line with the increasing output gap



# Dramatically shrinking trade volumes

## Trade declining with double digits

% yoy



Sources: IMF, DB Research

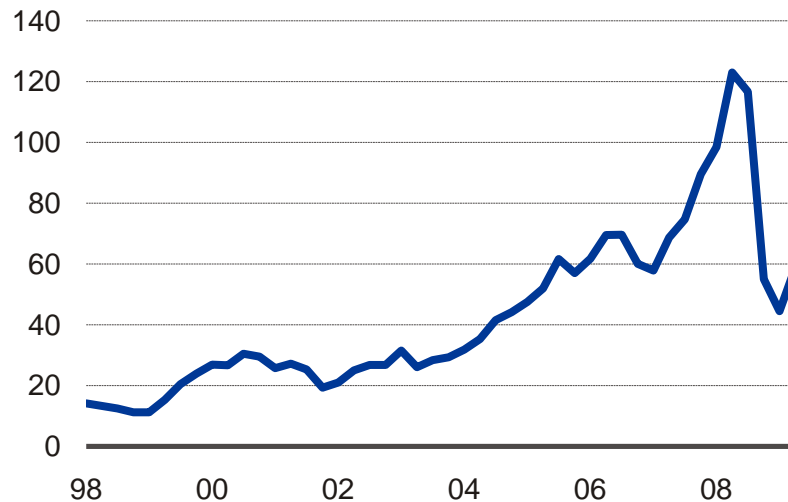
- With declining growth, the global trade volume is likely to contract by 10-15% in 2009
- Recent data suggest that the bottom has now been reached and trade growth will resume in 2010
- However, due to taxpayers money thrown at ailing companies, rising protectionism may endanger growth of global trade



# Oil price suffers from demand shock

## Brent Oil Spot Price

in Dollar



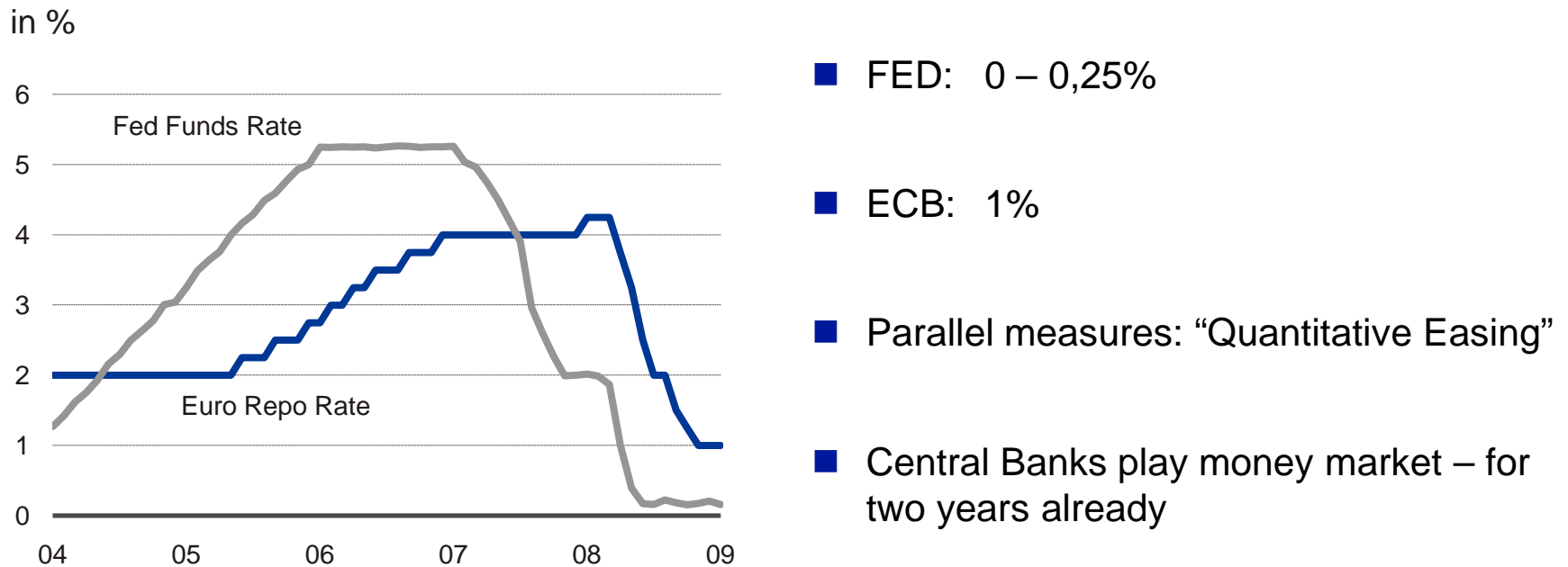
Source: DB Research

- 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

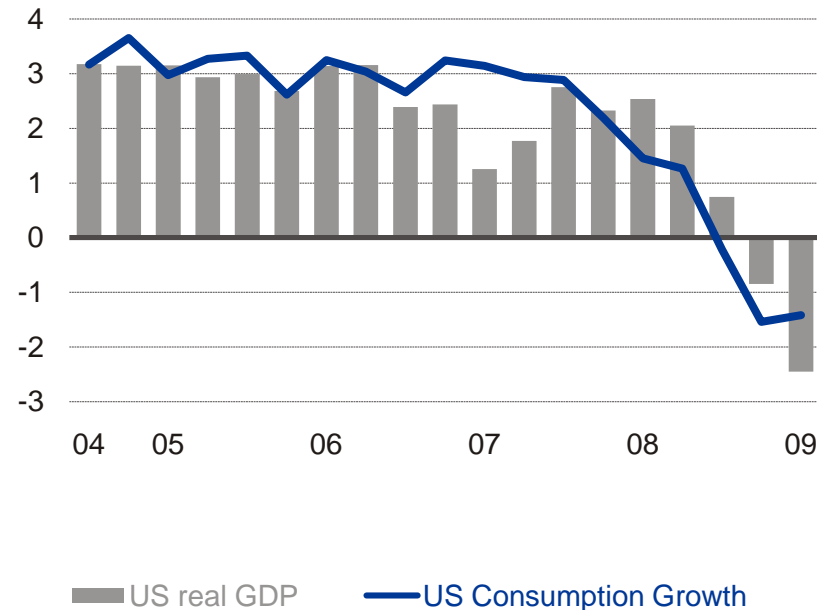




## GDP reached a floor – unemployment on the rise

### Fall in economic activity led to...

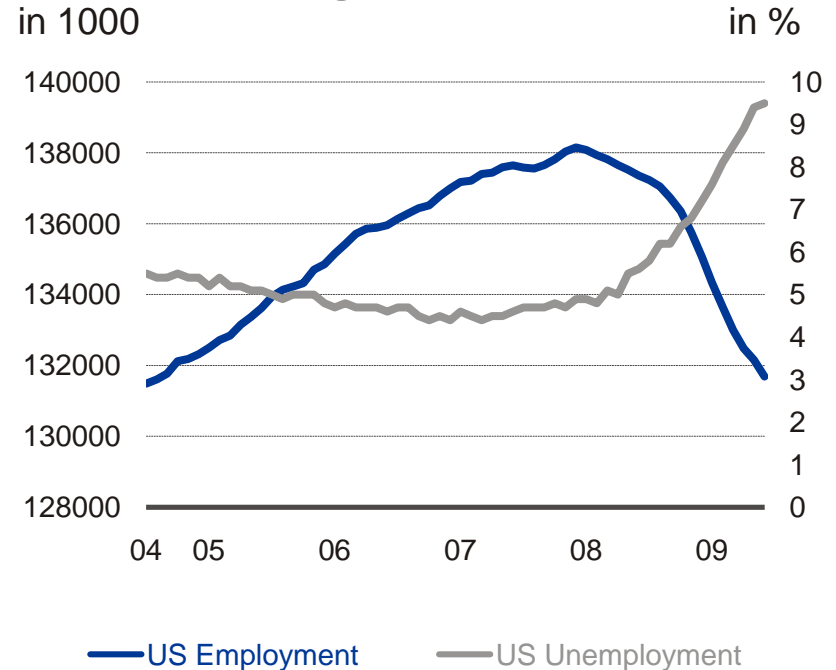
% yoy



Source: DB Research

### ...an imploding labor market

in 1000



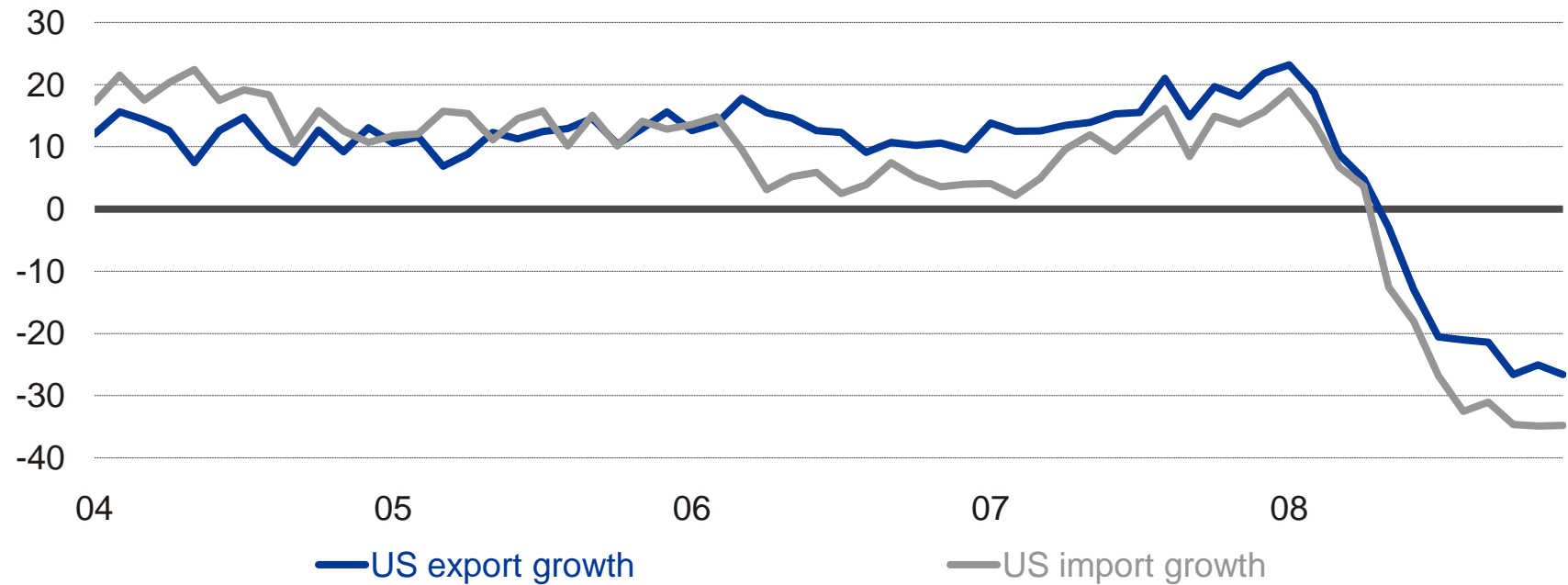
Source: DB Research



# Deteriorating trade volumes – current account deficit shrinks starkly

## Collapse of trade - Danger of rising protectionism?

% change yoy, 3Mmov. avg



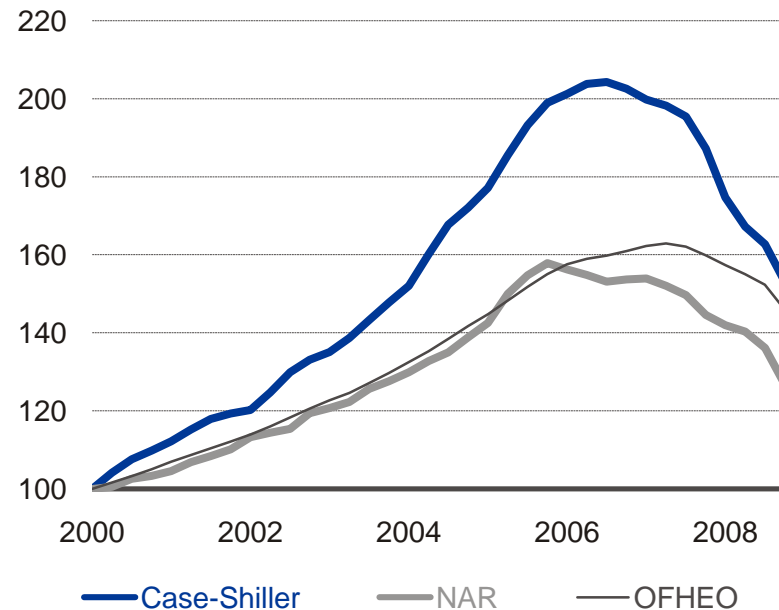
Source: DB Research



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

## US house prices are falling

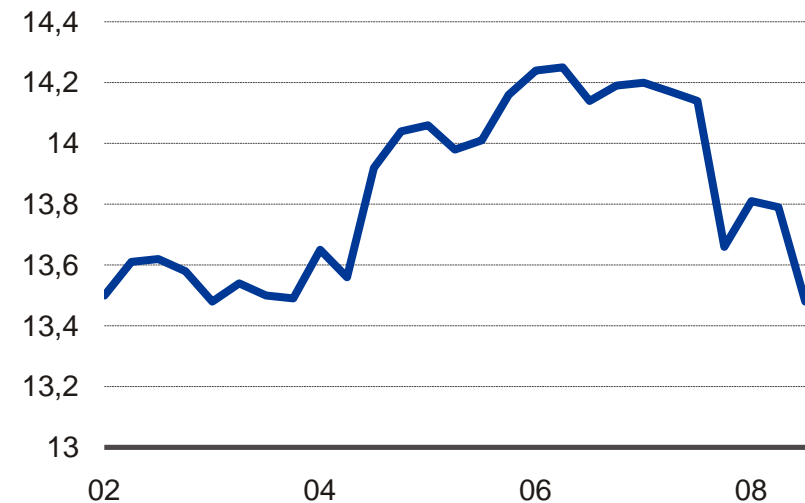
House price indices, 2000=100



Sources: S&P, NAR, OFHEO

## Don't be carried away

Ratio of debt service to disposable income



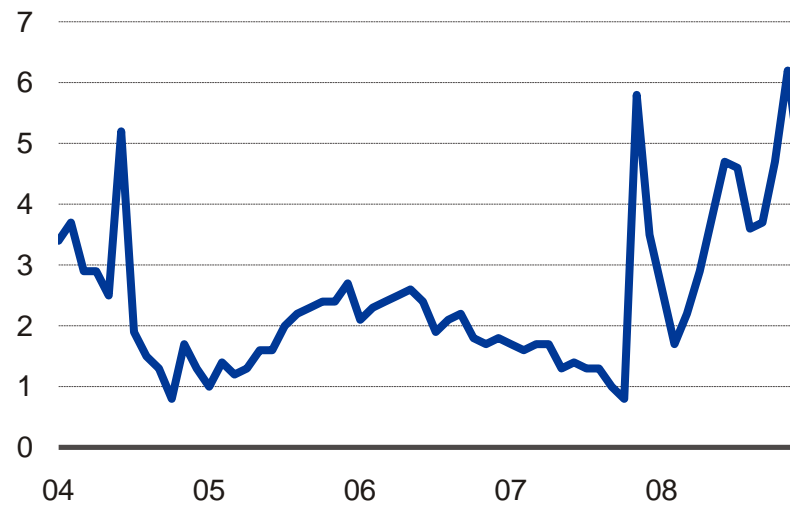
Source: WEFA, DB Research



## Households start to save – indication for a changing attitude

### Private Savings increase

in % of personal disposable income



Source: WEFA, DB Research

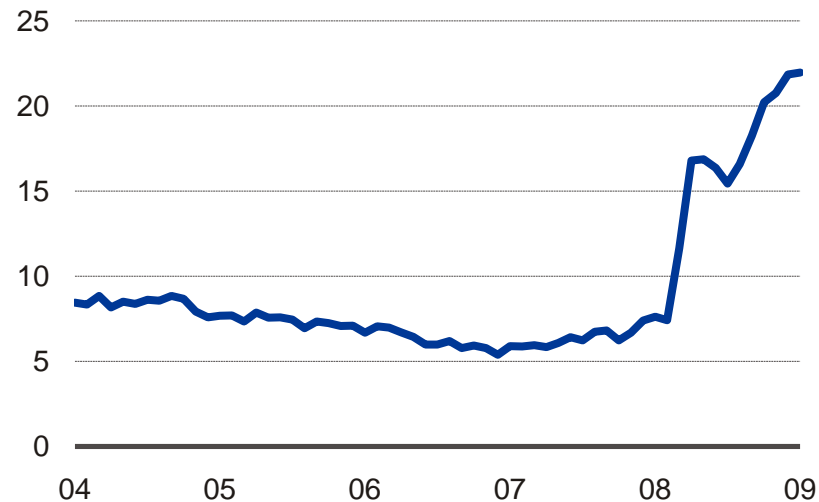
- after years of extensive consumption and a savings rate around zero, households have recently started to increase their savings
- this change of behavior can be explained by
  - perceived economic risks (unemployment)
  - loss of wealth and confidence with falling house prices and crash on stock markets



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

## Exploding Public Debt...

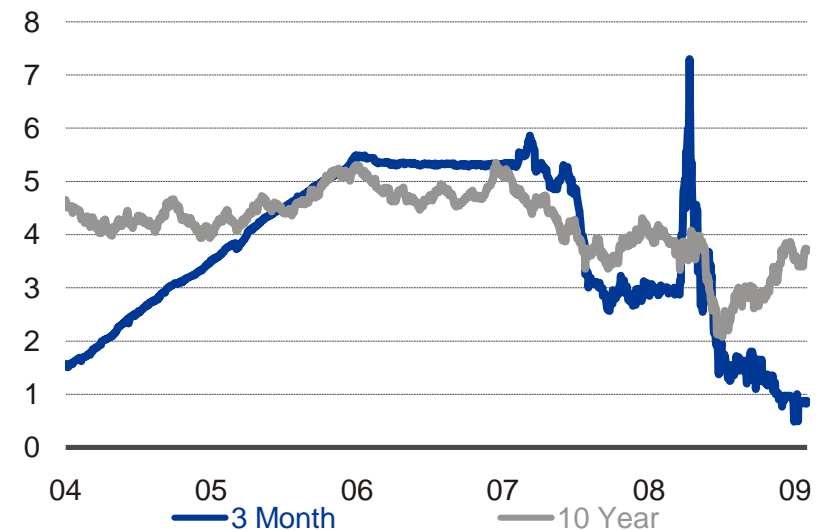
in % change



Source: DB Research

## ... with Bond rates still low

in %



Source: DB Research



# 3 The Euro Economy

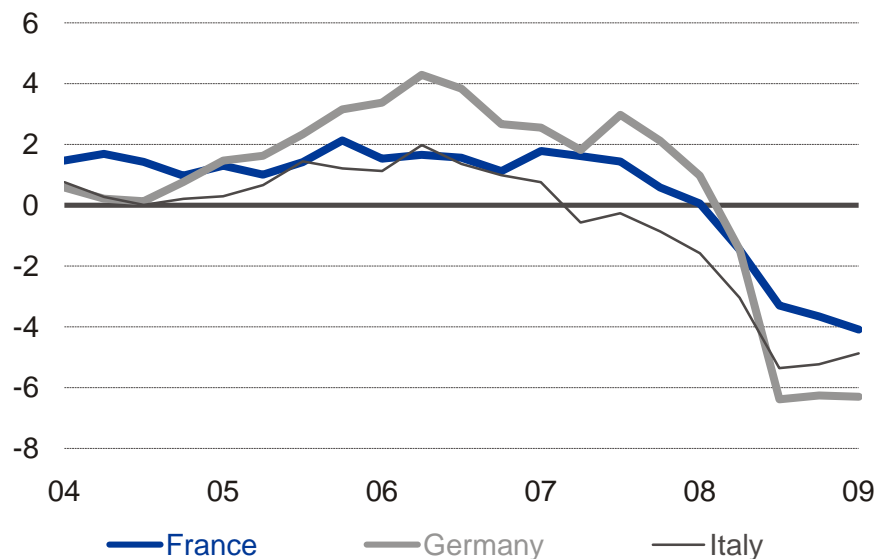
Snap back not excluded



## Euro economies far below potential – Any recovery in sight?

### Real GDP found a floor in mid 2009...

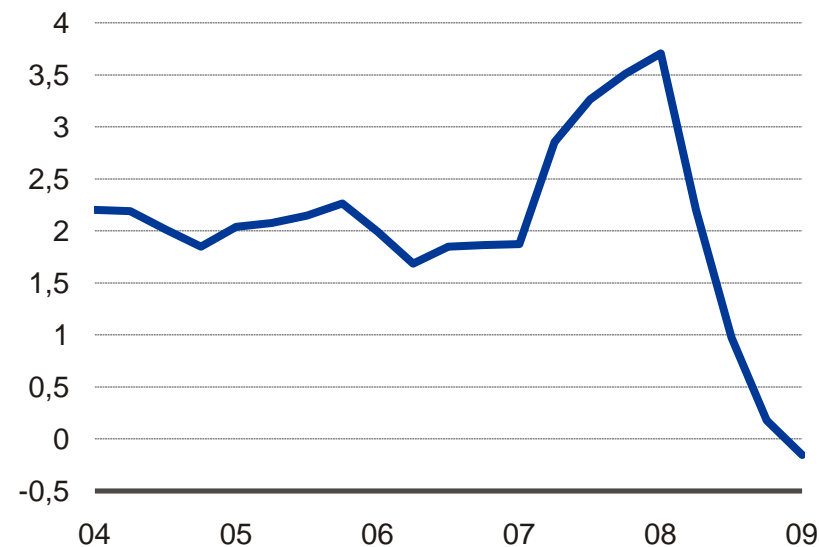
% change yoy



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

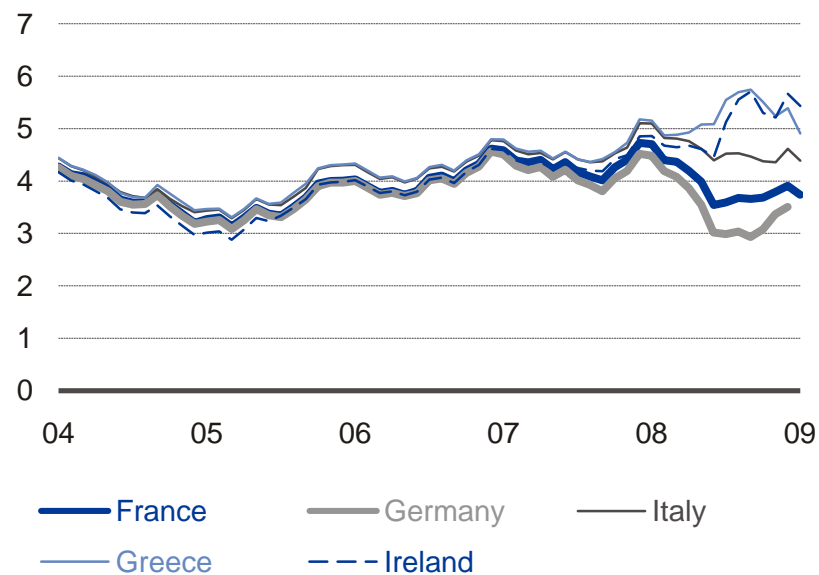




# European Monetary Union in danger to fall apart?

## Diverging Bond yields...

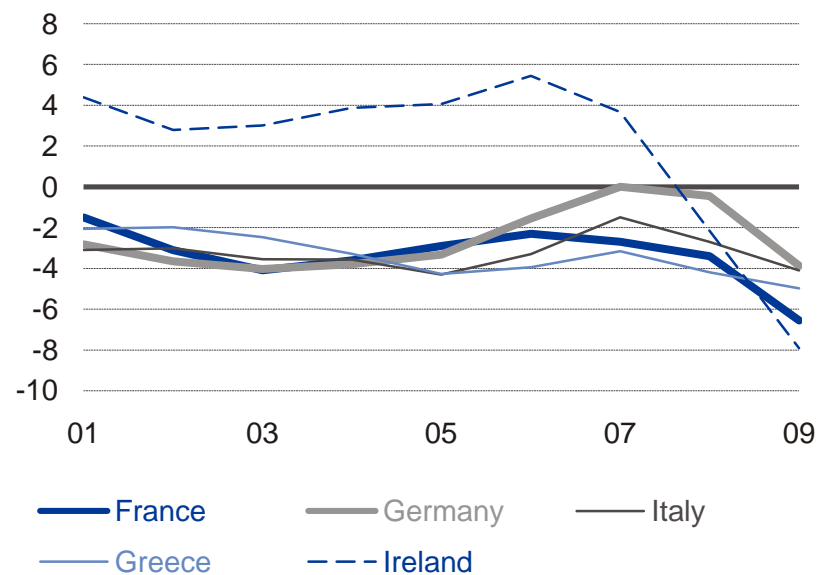
in %



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

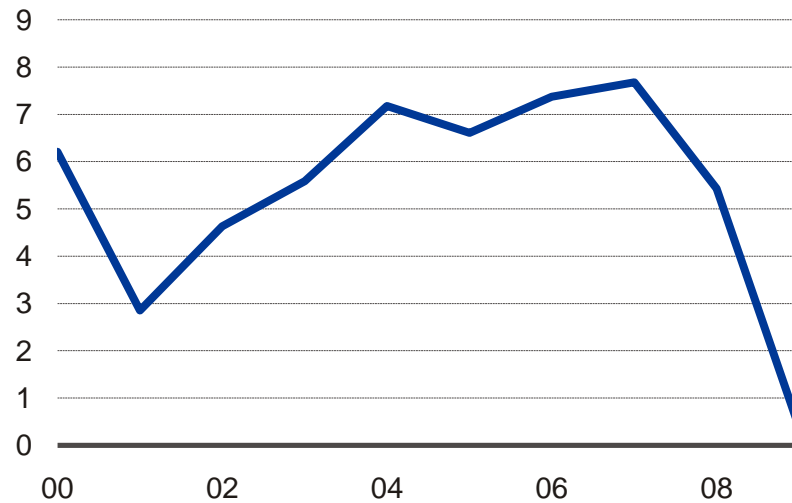
Already back on track



# EM & Asia: Rising importance in the global economy

## Emerging Markets in free fall...

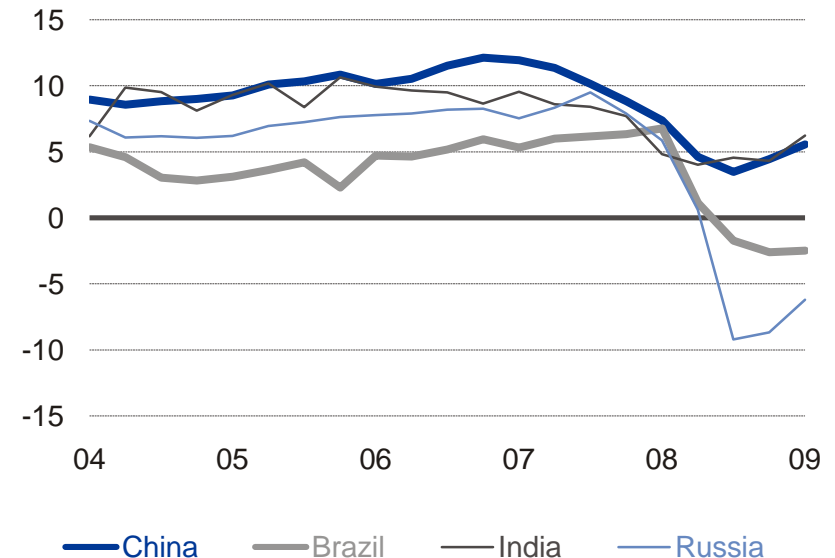
Real GDP growth yoy



Source: DB Research

## ...but with different prospects!!

Real GDP growth in % change yoy



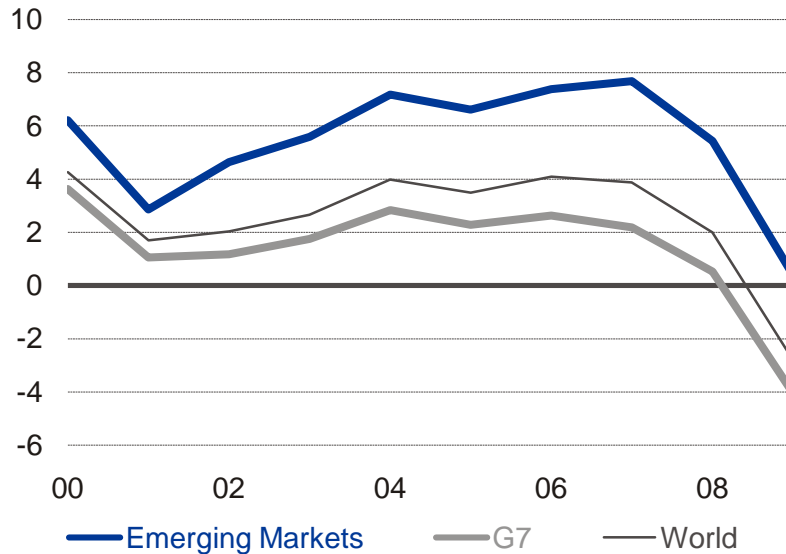
Source: WEFA, DB Research



## Will Asia save the world?

### EM's performance poor but still best in crisis

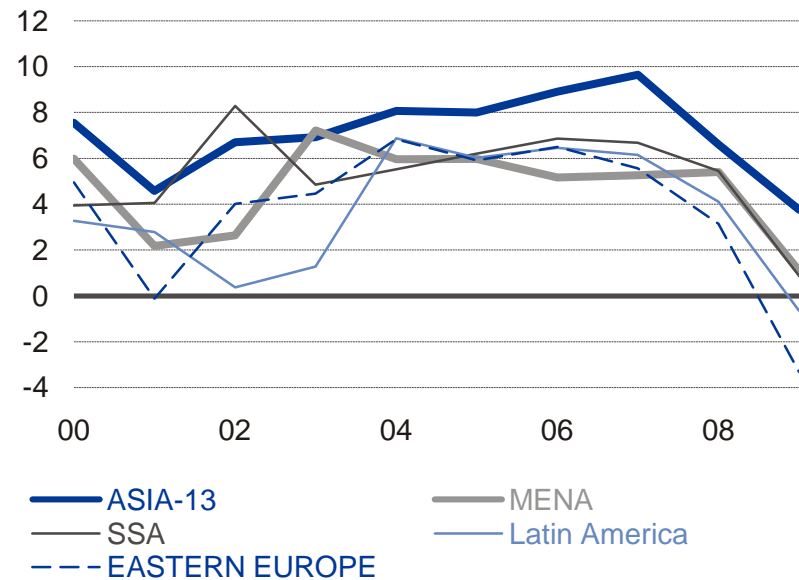
Real GDP growth in % change yoy



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



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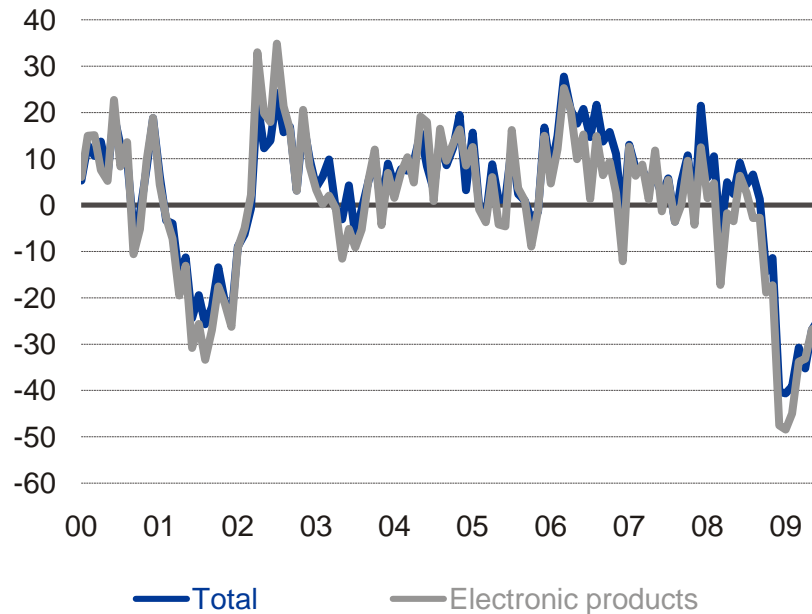




## Remittances steady, exports down

### Exports hit hard by waning global demand

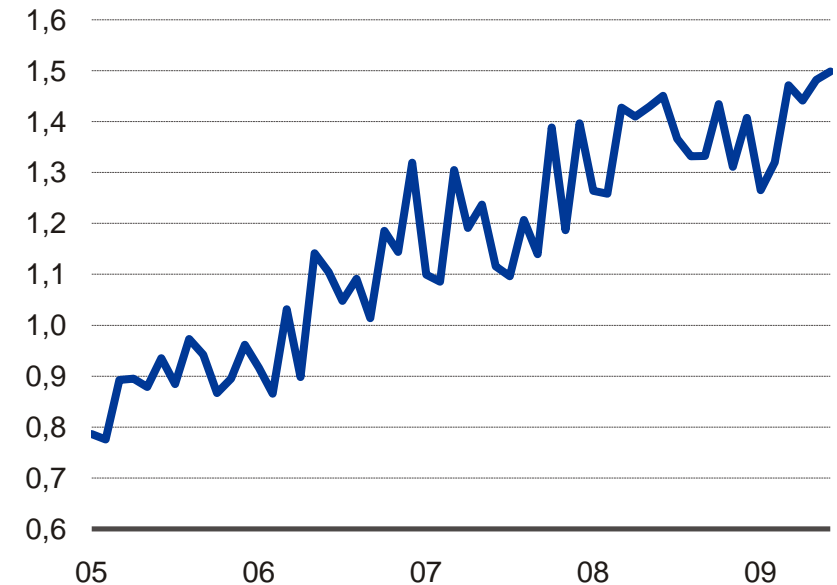
% yoy



Source: CEIC data

### Overseas workers' remittances still on upward trend

USD bn



Source: CEIC data

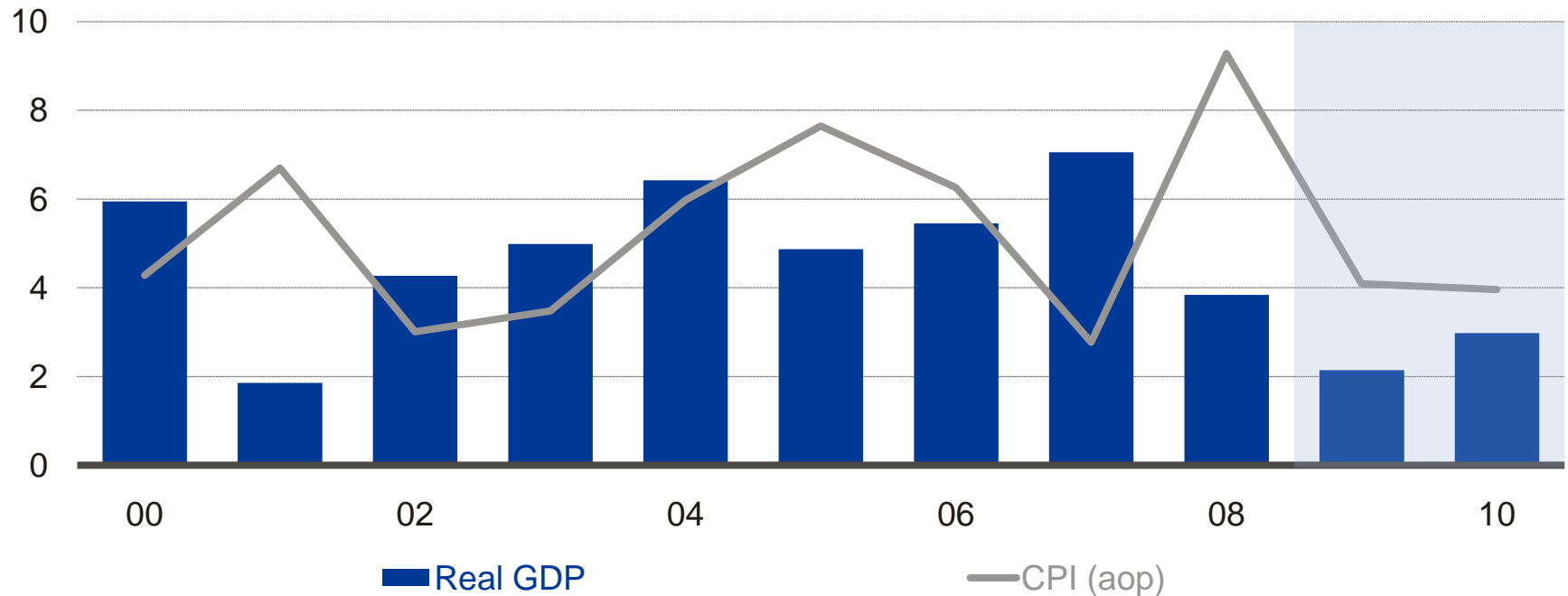




# Prolonged recession in G3 economies as main downside risk

## Growth performance to suffer from global recession

% yoy



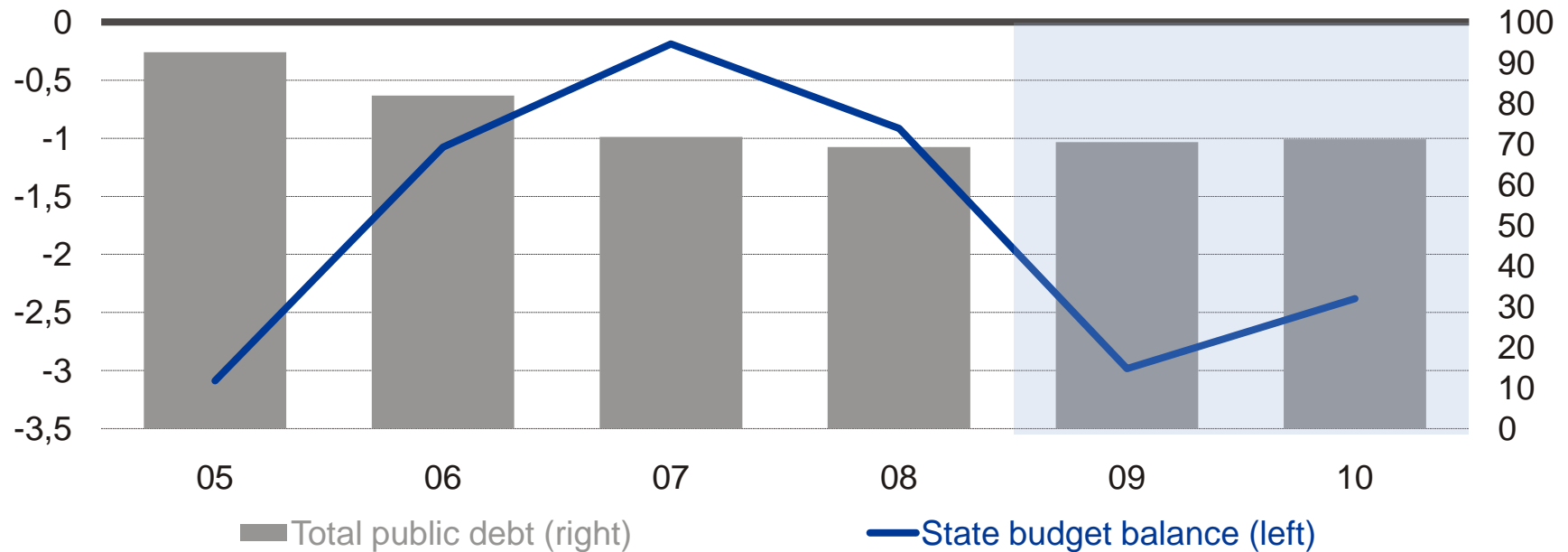
Source: DB Research



## Weak fiscal position limits room for stimulus

### Balanced budget postponed

% of GDP



Source: DB Research

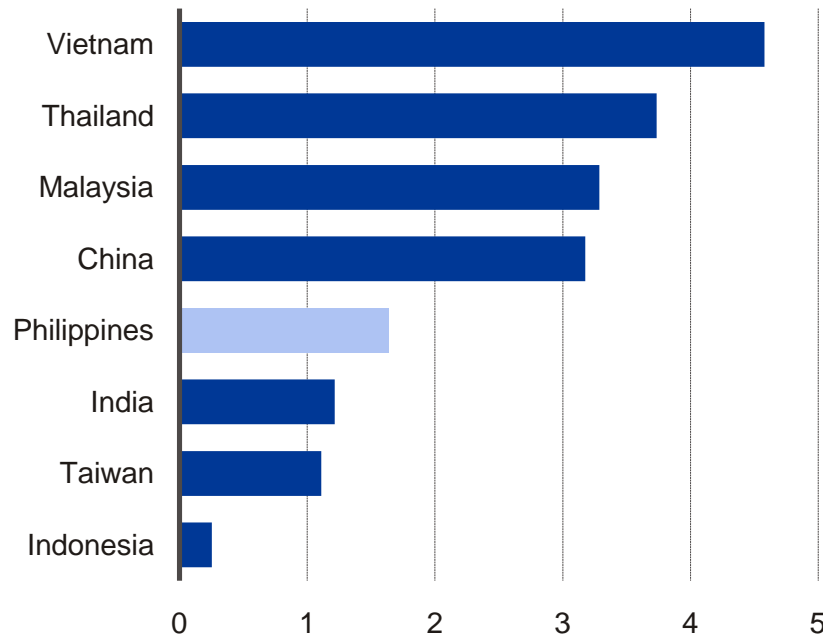




## Some challenges for new political leadership

### 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



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# 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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