Worldwide recession – How deep, how long?

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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
The Global Economy
A synchronized crash
Any evidence for recovery?

- 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.

Sources: IMF, DB Research
Dramatically shrinking trade volumes

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.

Sources: IMF, DB Research
Oil price suffers from demand shock

- 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

Brent Oil Spot Price
in Dollar

Source: DB Research

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Monetary policy in quantitative easing mode – interest rates around zero

Central Bank interest rates
in %

- FED: 0 – 0,25%
- ECB: 1%
- Parallel measures: “Quantitative Easing”
- Central Banks play money market – for two years already

Source: DB Research
The US Economy
Bold push to leave recession behind
GDP reached a floor – unemployment on the rise

Fall in economic activity led to...  
% yoy

-3 -2 -1 0 1 2 3 4
04 05 06 07 08 09

US real GDP  US Consumption Growth

...an imploding labor market
in 1000
in %
0 1 2 3 4 5 6 7 8 9 10
128000 130000 132000 134000 136000 138000 140000
04 05 06 07 08 09

US Employment  US Unemployment

Source: DB Research

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

Don’t be carried away
Ratio of debt service to disposable income

Sources: S&P, NAR, OFHEO

Source: WEFA, DB Research
Households start to save – indication for a changing attitude

- 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

Private Savings increase in % of personal disposable income

Source: WEFA, DB Research
Public Sector: huge deficit but low credit costs – will it last?

Exploding Public Debt... in % change

... with Bond rates still low in %

Source: DB Research
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

... with inflation below zero

in % change yoy

Source: WEFA, DB Research

Source: WEFA, DB Research
Expensive Euro helps US – and hurts Europe

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.

Source: ECB, DB Research
European Monetary Union in danger to fall apart?

Diverging Bond yields...
in %

... reflect different fiscal positions
in % of GDP

Source: WEFA, DB Research

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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.
Emerging Markets
Already back on track
EM & Asia: Rising importance in the global economy

Emerging Markets in free fall...
Real GDP growth yoy

...but with different prospects!!
Real GDP growth in % change yoy

Source: DB Research

Source: WEFA, DB Research
Will Asia save the world?

EM's performance poor but still best in crisis
Real GDP growth in % change yoy

Asia-13 dominate other regions
Real GDP growth in % change yoy

Source: WEFA, DB Research

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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)

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

<table>
<thead>
<tr>
<th>Country</th>
<th>FDI inflows</th>
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<tbody>
<tr>
<td>Vietnam</td>
<td>4.5</td>
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<tr>
<td>Thailand</td>
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<td>Malaysia</td>
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<td>Philippines</td>
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<tr>
<td>Indonesia</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Sources: UNCTAD, DB Research
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?