

# **Global Outlook: Grounds for Optimism, But Risks Remain Relevant**

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# Grounds for Optimism

- **United States:** Improving near-term prospects
- **Europe:** More resilient than expected
- **China:** Downside risks fading
- **Japan:** A hopeful beginning

# However: Risks Remain Relevant

- **United States:** Fiscal drag/Monetary laxity
- **Europe:** New downturn weakens support for action
- **China:** Sharp slowdown amidst policy shift
- **Japan:** New policies, uncertain impact

# Improving Growth Prospects

<b>GDP (% Year)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Global	2.4	2.5	3.1
Global (PPP weights)	3.0	3.1	3.7
Developed	1.2	1.0	1.8
Emerging	4.6	5.1	5.4

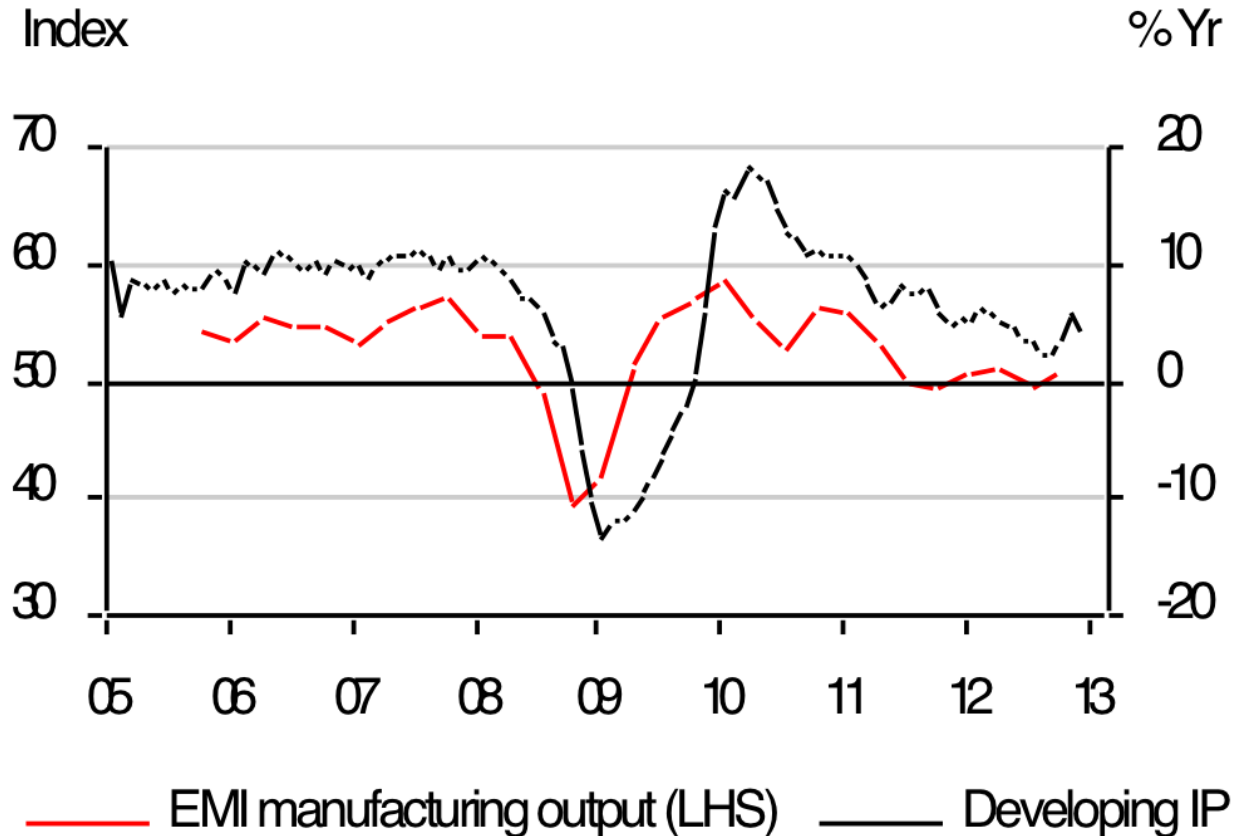
Source: HSBC

# Growth Remains Below Long-Term Trend



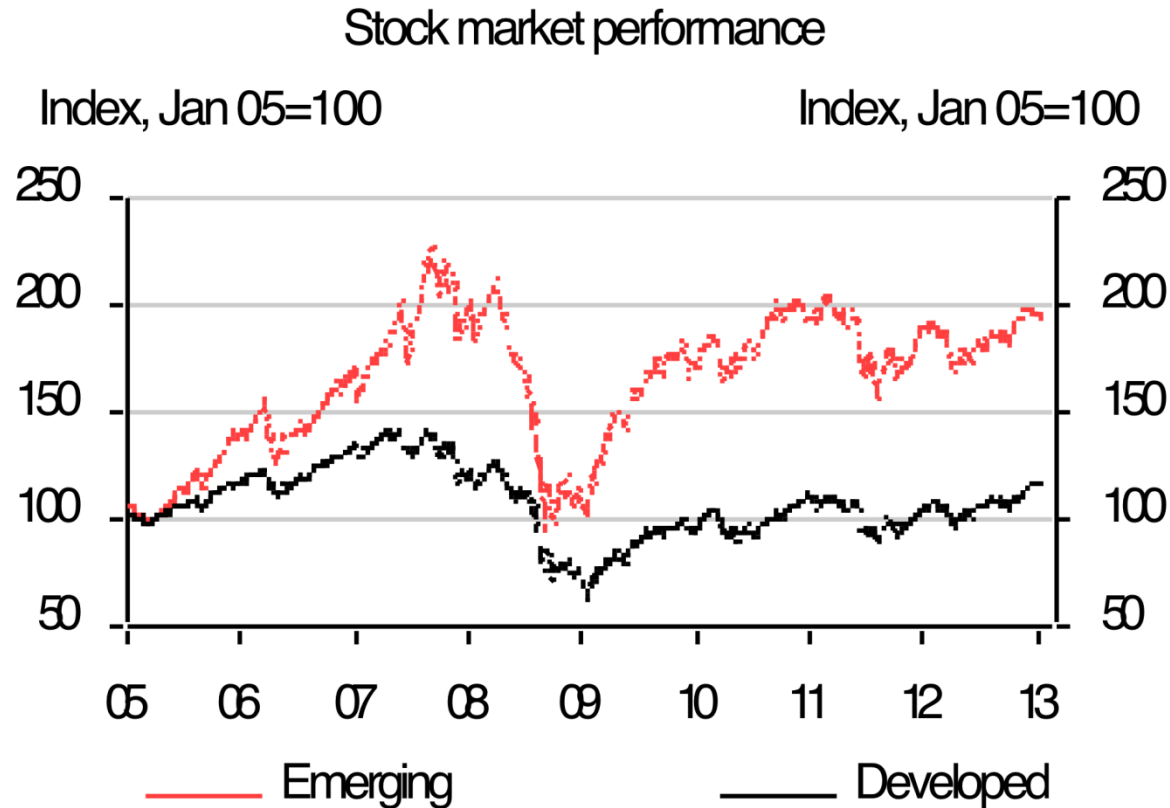
Source: World Bank, HSBC

# Manufacturing Output Edging Higher



Source: Thompson Reuters Datastream, Makeit and HSBC

# Global Stock Rally: Underlying Strength or Monetary Phenomenon?



Source: Thomson Reuters Datastream, HSBC

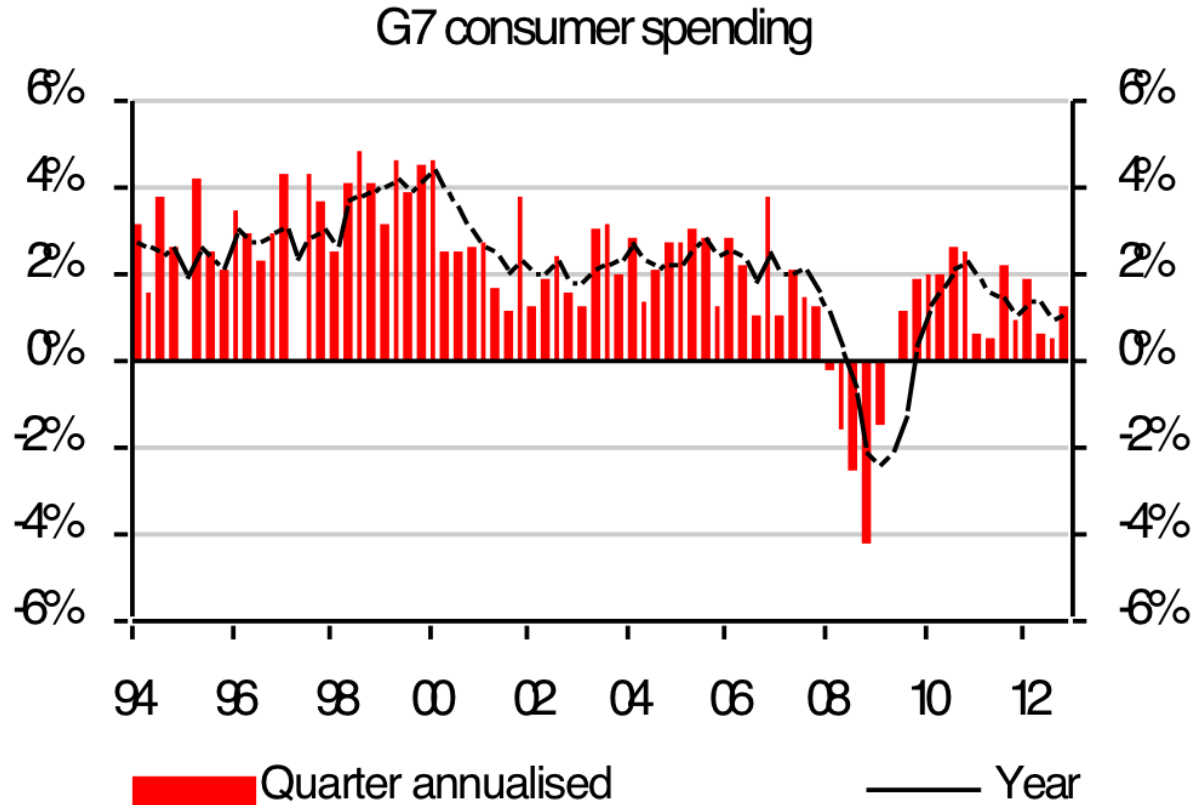
# Lingering Issues: Unemployment & Inequality



Source: Thomson Reuters Datastream, HSBC



# Weak Income Growth & Consumption: Upturn Possible



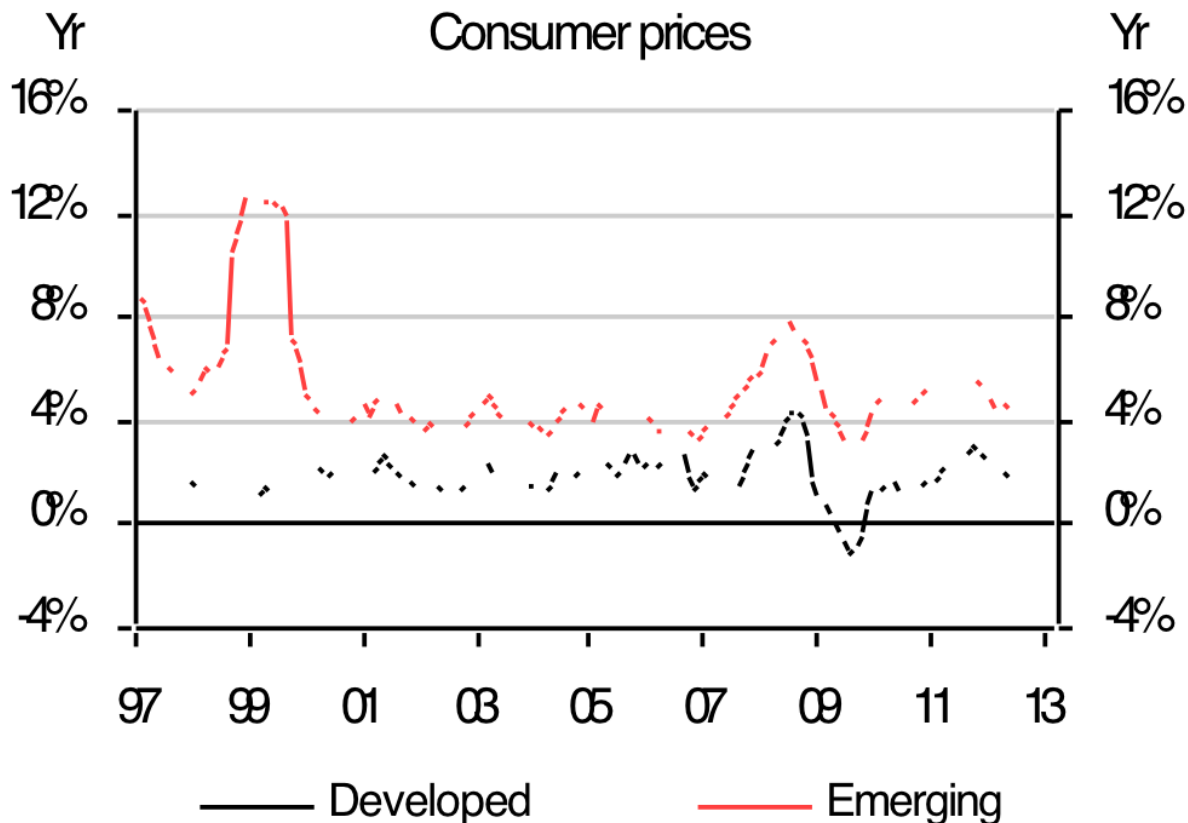
Source: Thomson Reuters Datastream, HSBC

# Inflation Remains Subdued

<b>CPI Inflation (% Year)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Global	2.8	2.6	2.8
Developed	1.9	1.6	1.8
Emerging	5.5	5.6	5.6

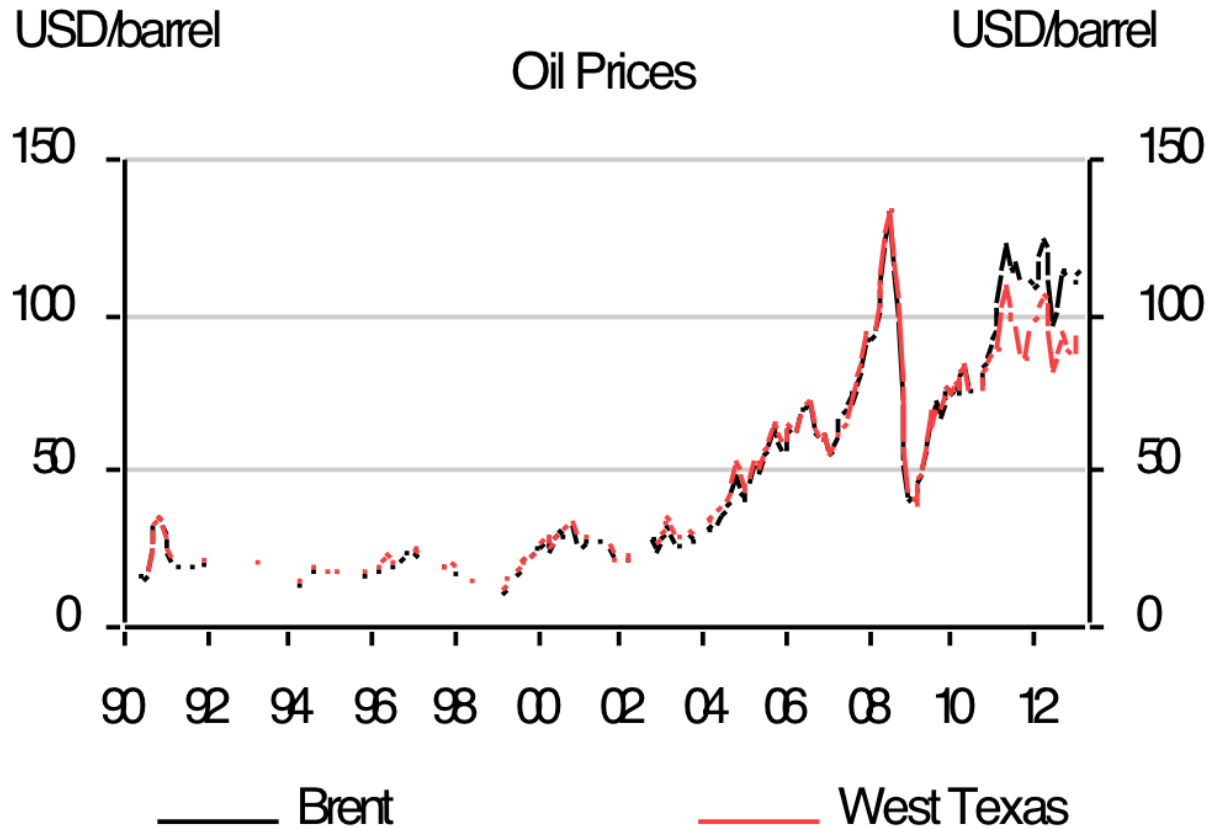
Source: HSBC

# Inflation Not A Problem... At Least For Now



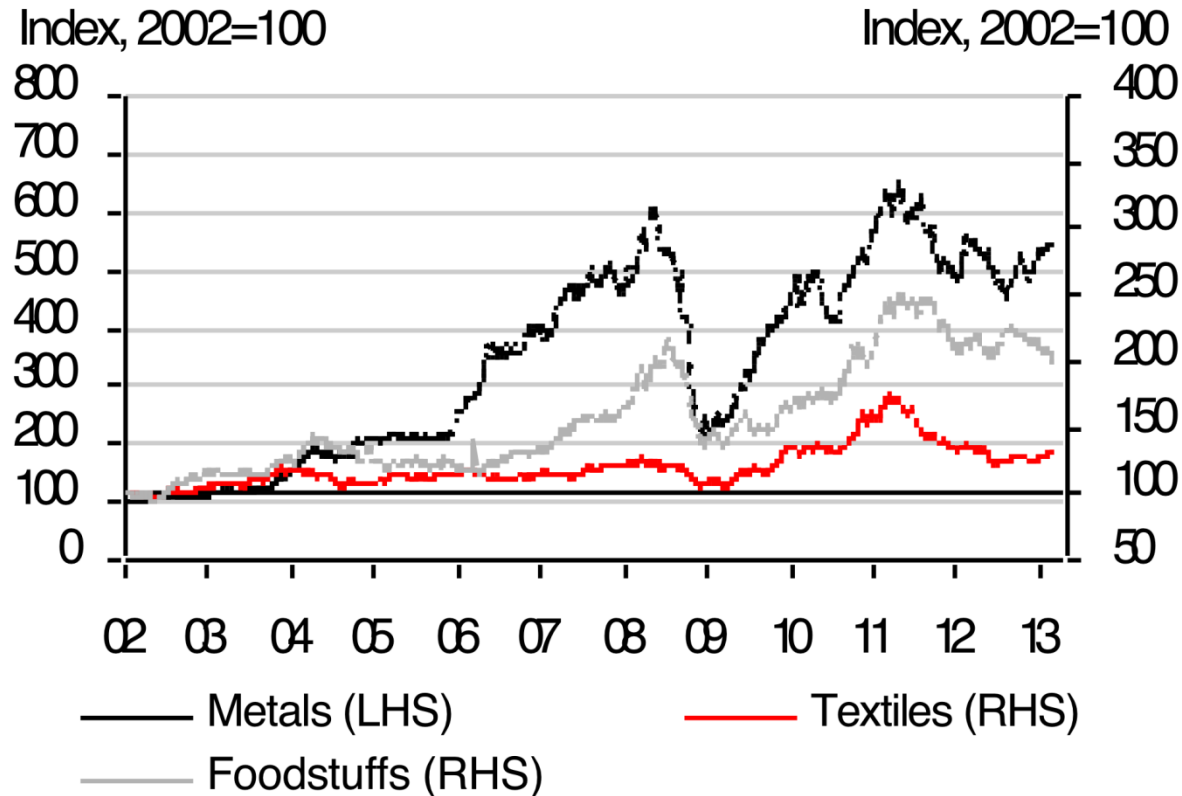
Source: Thomson Reuters Datastream, HSBC

# High Energy Prices Haven't Created Inflation Worries



Source: ICIS, Thomson Reuters Datastream, HSBC

# Commodity Prices Well Below Recent Peaks



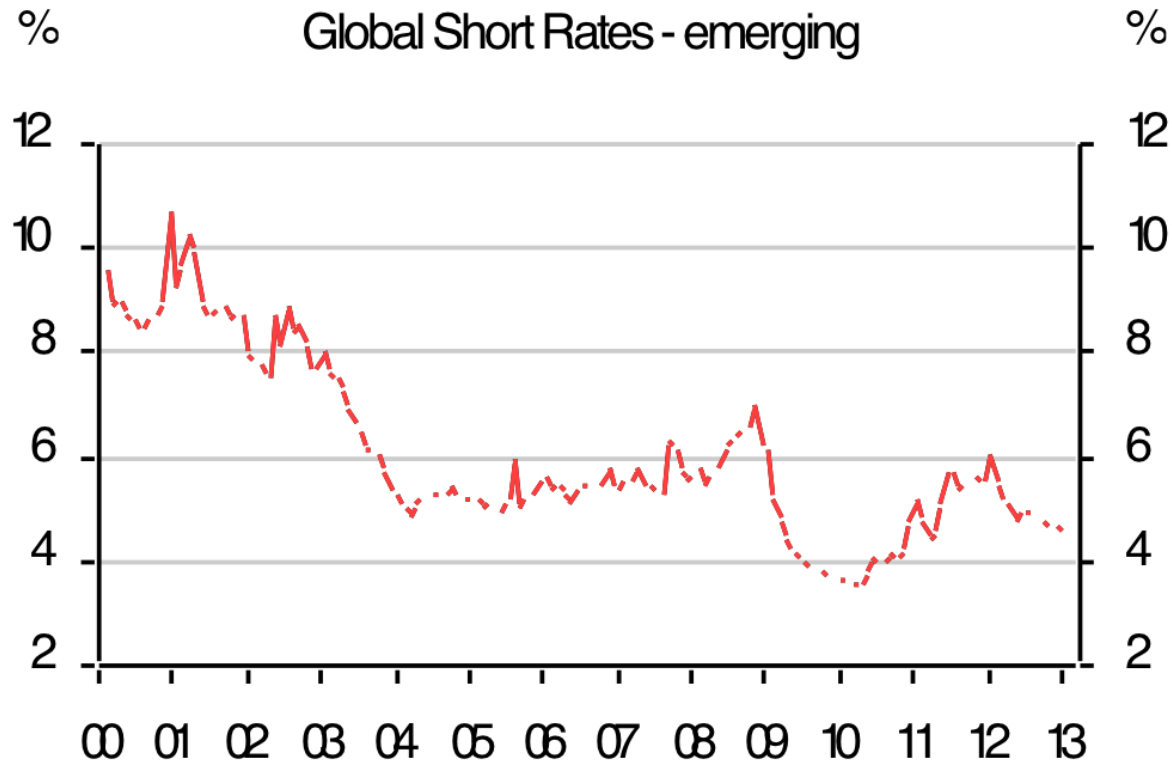
Source: The Economist, Thomson Reuters Datastream, HSBC

# Monetary Policy Remains Historically Accommodative



Source: Thomson Reuters Datastream, HSBC

# EM Inflation-Adjusted Policy Rates Are Negative



Source: Thomson Reuters Datastream, HSBC

# Global Bond Rally Still Intact

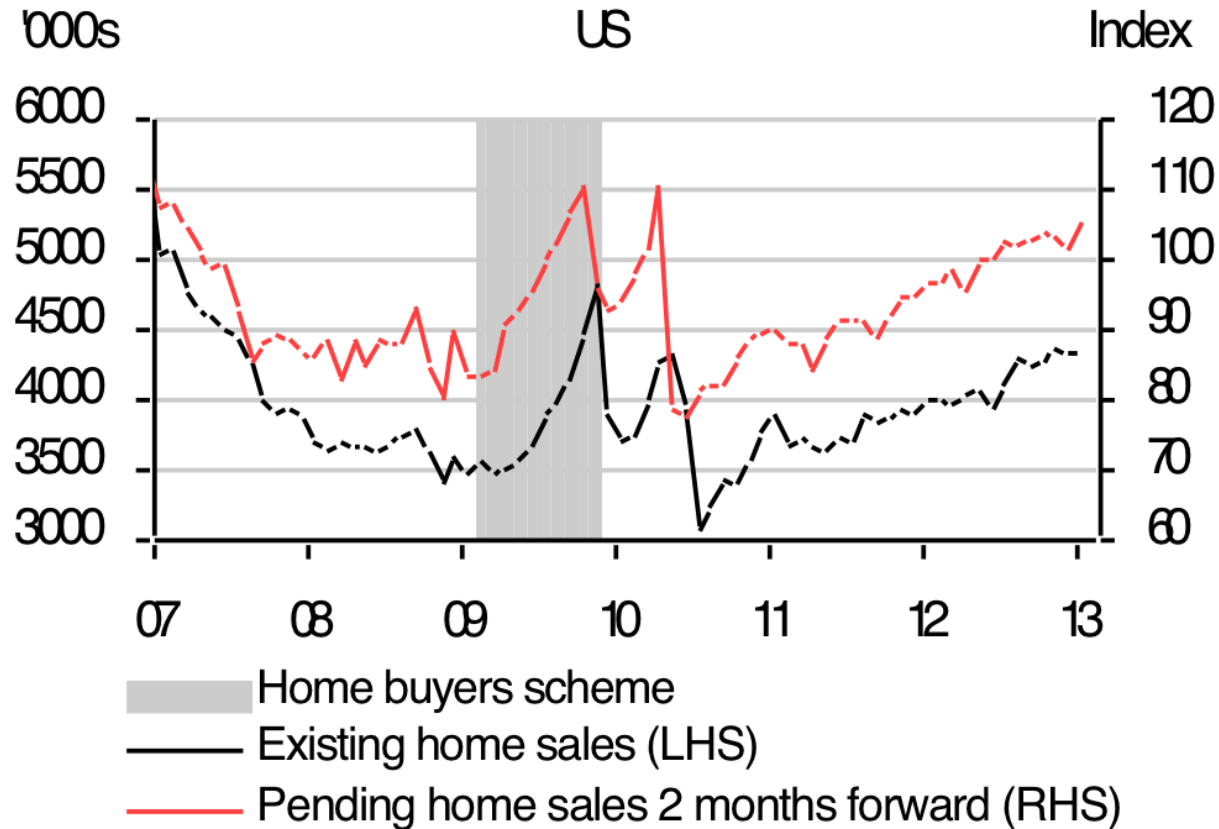


Source: Thomson Reuters Datastream, HSBC



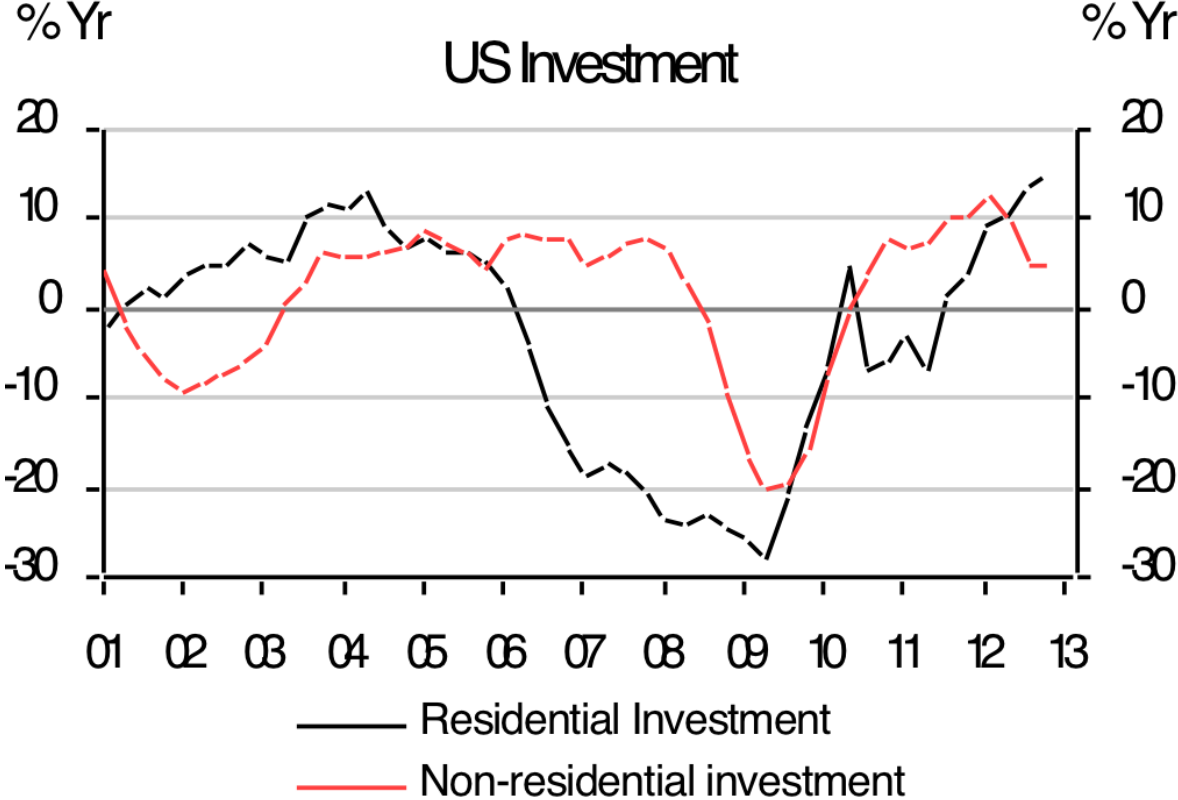
# Improving US Outlook

# Housing Sector Improvements Playing a Key Role



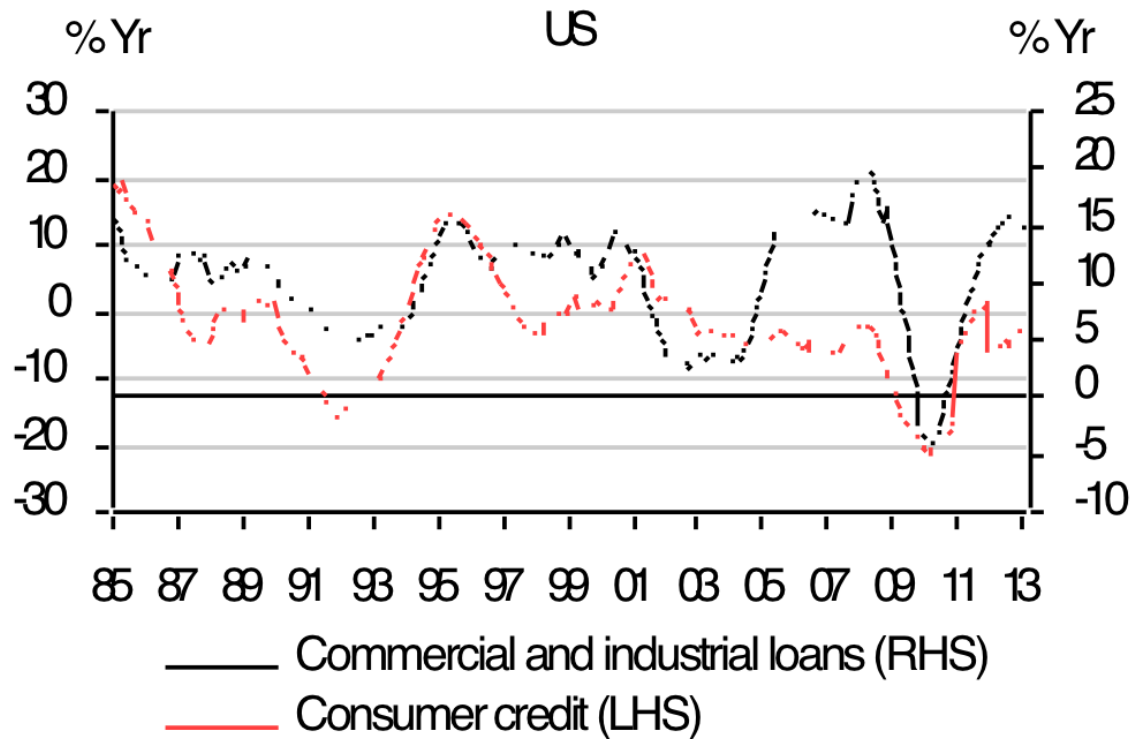
Source: Thomson Reuters Datastream, HSBC

# Non-Residential Investment Still Lagging



Source: Thomson Reuters Datastream, HSBC

# Credit Demand Rebounding



Source: Thomson Reuters Datastream, HSBC

# US Fiscal Policy: What Just Happened?

1. Deficit on Downward Trajectory with Small Near-Term Drag
2. Bush Tax Cuts Made Permanent (for 98%)
3. Republicans Agreed To Defense Cuts
4. What's Wrong with Across-the-Board Spending Cuts?
5. Entitlements, Tax Reform on the Table

**US Monetary Policy Challenge:**  
**Engineering an Exit**

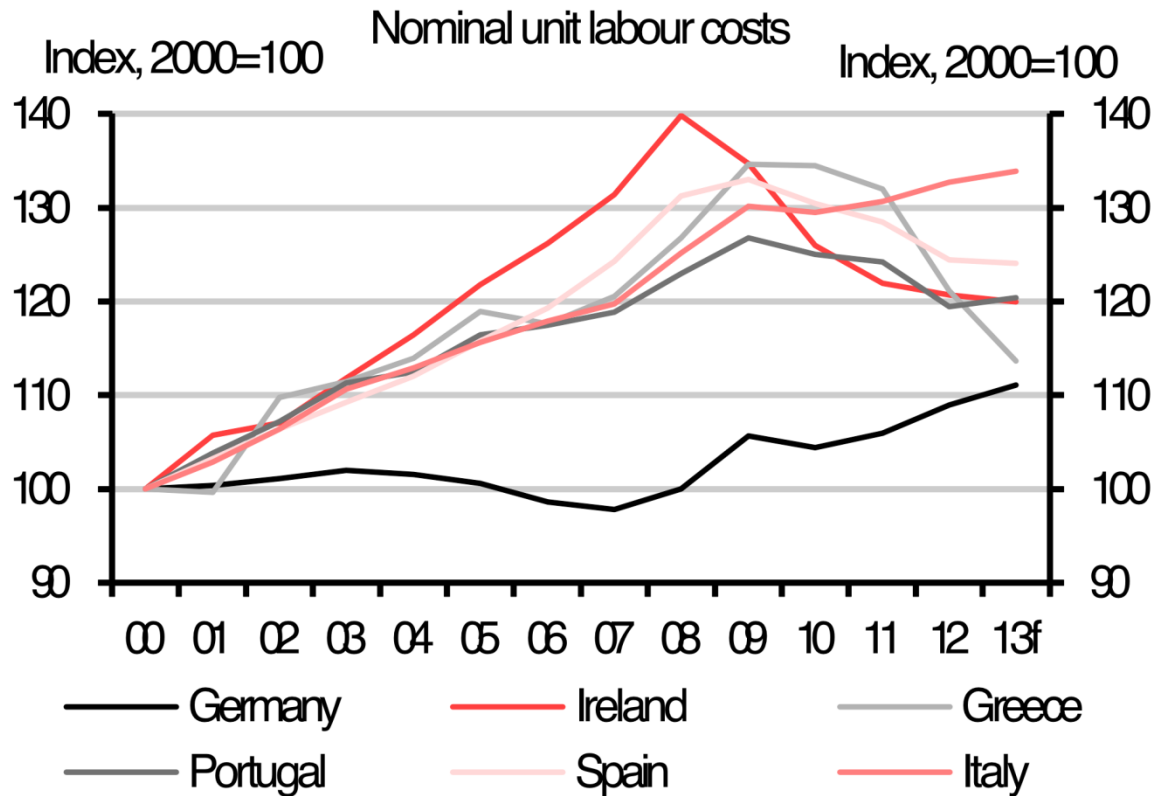
**European Outlook:**  
**Not Easy Answers**

# Four Basic Introductory Points

- The EU Isn't a Proto-United States
- The Euro Was Created to Solidify The Single Market
- The Single Currency's Challenges Were Anticipated
  - Not an Optimal Currency Area
  - No Federal Fiscal Institutions
  - No Federal Financial Sector Oversight
- The Severity of the Challenges Was Not Foreseen

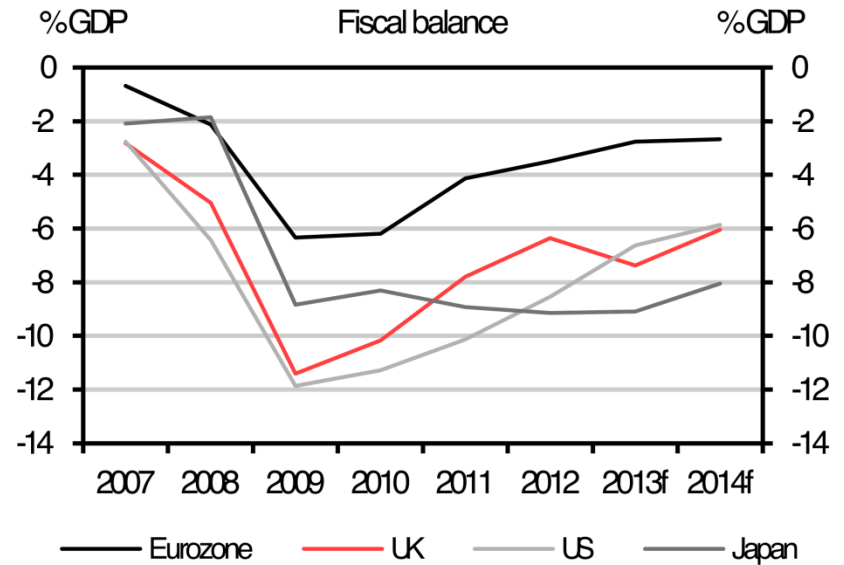
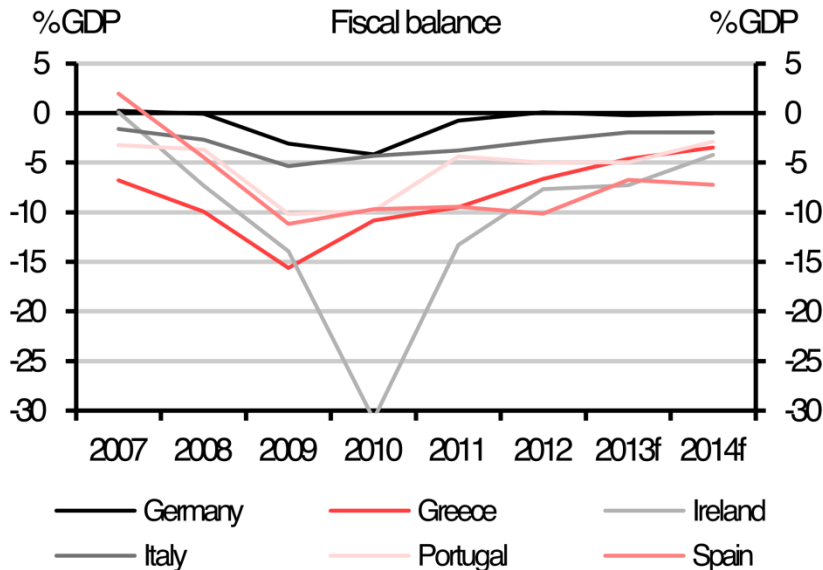


# Making Progress: Converging Competitiveness



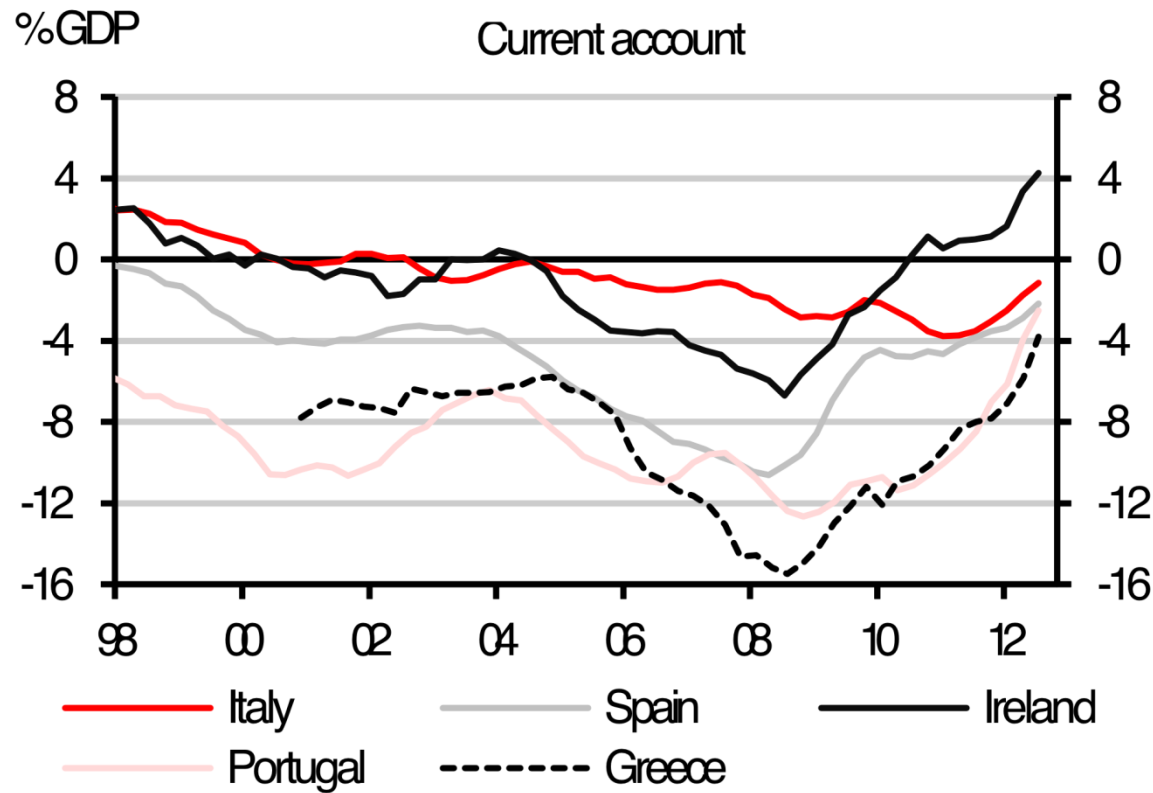
Source: Eurostat

# Making Progress: Reducing Fiscal Imbalances



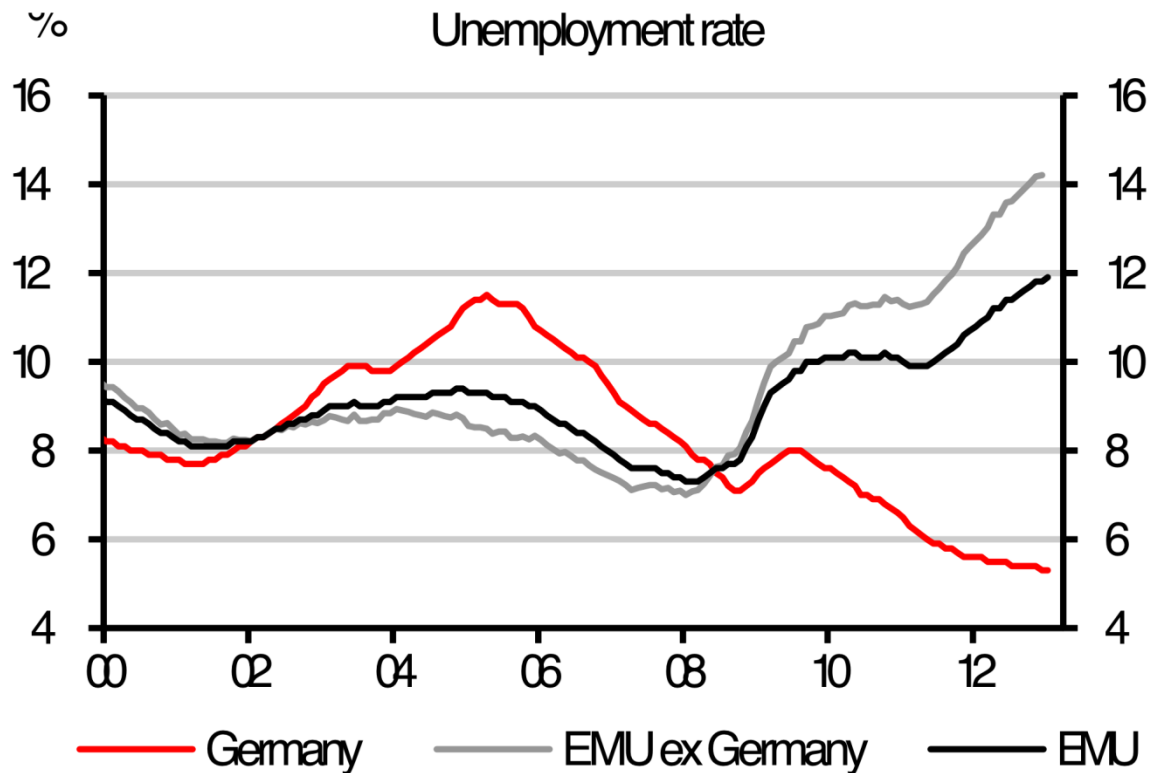
Source: European Commission, European Economic Forecast – Winter 2013

# Making Progress: Reducing Current Account Imbalances



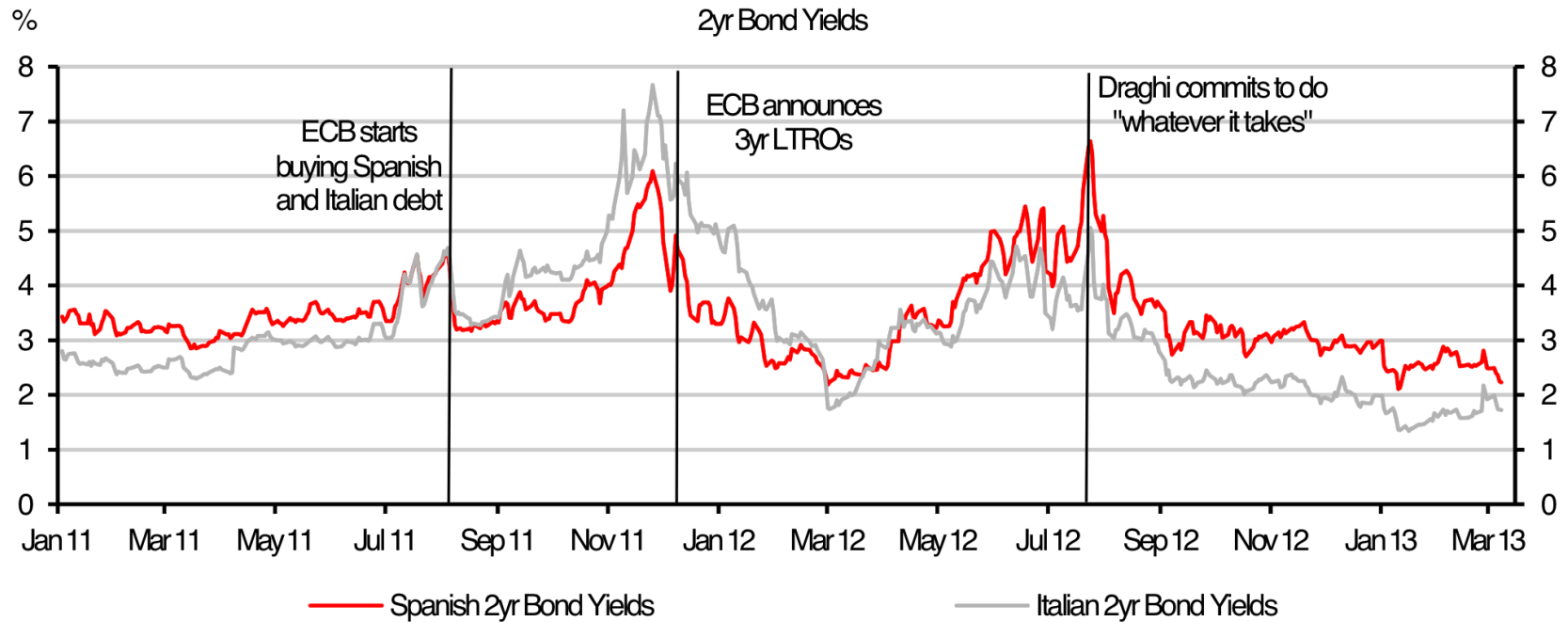
Source: Thomson Reuters Datastream, HSBC

# Europe's Continuing Challenge: Slow Growth and Still Rising Unemployment



Source: Eurostat

# The ECB's Promise Calmed Markets: At Least for Now



Source: Bloomberg

# Near-Term Hurdles

- A Solution for Cyprus
- Restoring Growth
- Sustaining Financial Market Stability
- Reinforcing the Single Financial Market (SSM)
- New Progress On Constructing European Fiscal Institutions
- Whither the United Kingdom?

# The Euro and the European Single Market: 3 Key Questions



Will It Survive?

Will It Expand?

Will It Thrive?

# 3 Key Conclusions



Yes

Probably

Hopefully



## Asia's Key Role

- Continued Strength a Bedrock for Restoring Global Growth
- However, Rebalancing and Reform also Critical to the Outlook

**China:**  
**New Government, New Policies?**

# China: Key Issues

- Implementing Reforms
- Financial Sector Critical Indicator

**Japan:**

**Will Three Arrows Hit the Target?**

# **Assessing the Policy Prospects**

- Monetary Policy Shift Certain, but Not Its Impact
- Fiscal Policy Scope Not Yet Clear
- Structural Reforms Hold the Key

**Other Concerns:**  
**What Happened to the G20**  
**After Seoul?**

# The G20's Agenda

- Macroeconomic Policy Cooperation
- Financial Sector Reform
- International Financial Institution Reform

# Upside Potential

- Growing confidence in Broad Improvements
- Restoring G20 Consensus & Cooperation



# Ever-Present Risks

- Stalling Growth & Ineffective Policies
- Loss of Confidence & Coherence