

Global Economic Outlook: 2015-2016

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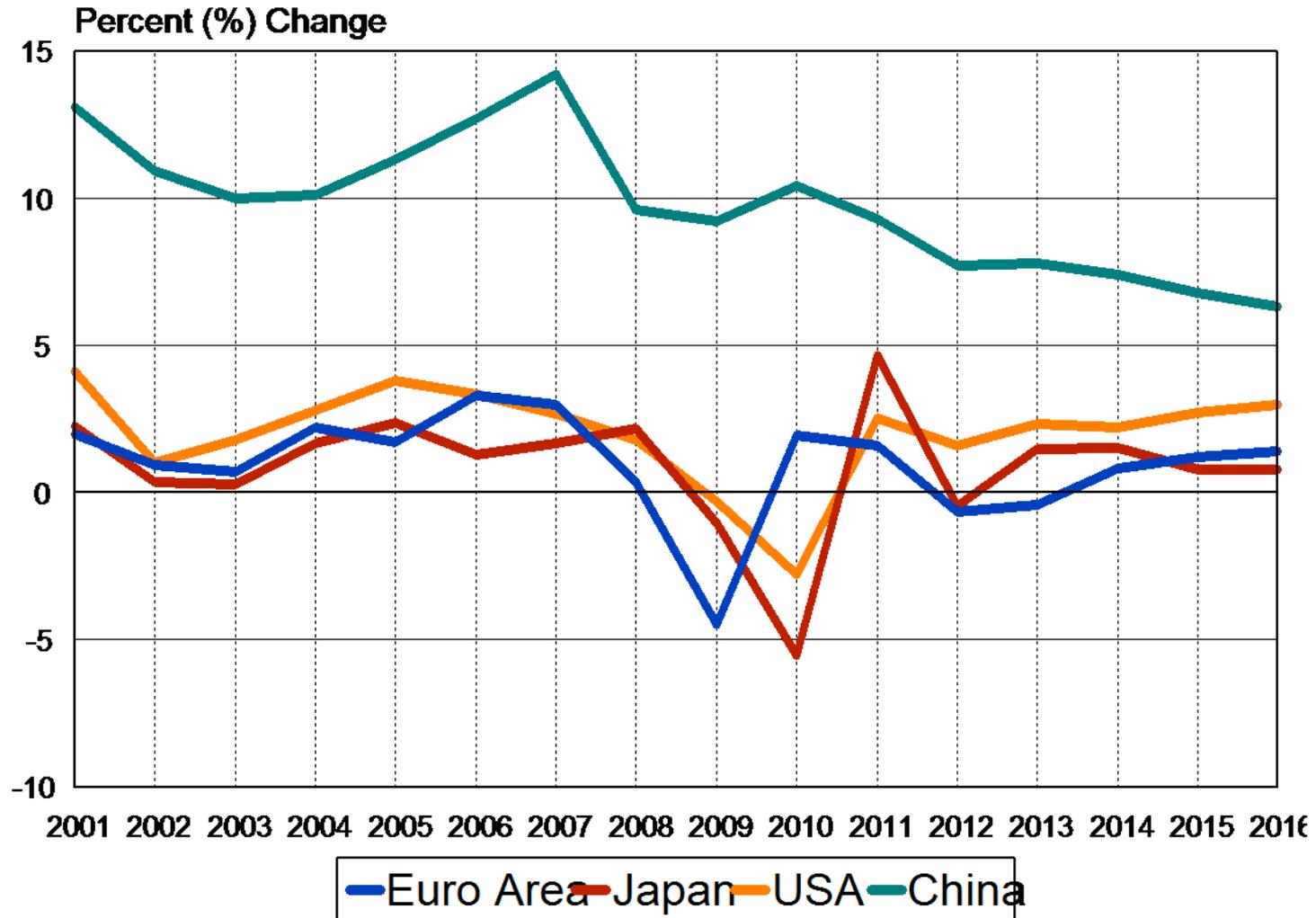
What's the current state of the global economy?

- Stagnation and deflationary pressures in Europe
- Stagnation and renewed deflationary pressures in Japan
- Slowdown, financial reforms and change of gears in China
- Recovery and growth in US economy
- Emerging economies mixed picture

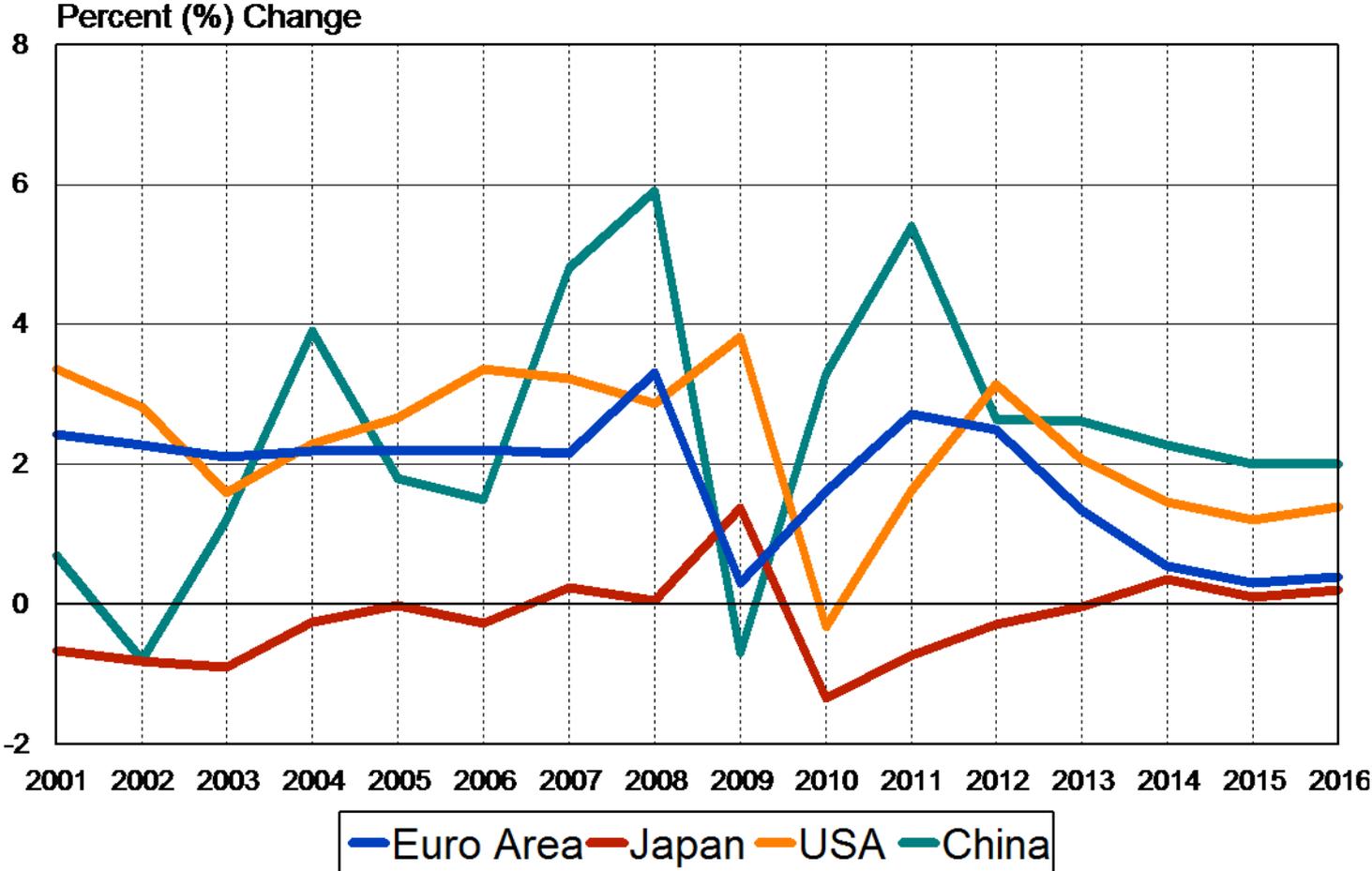
What are the major forces driving the global economy today?

- High levels of public debt in advanced economies, legacy of global financial crisis of 2008 and global recession of 2009
- Unorthodox monetary policies and secularly low interest rates
- Deflation in product markets and inflation in asset markets
- Corporate sector awash in cash and household sector deep in debt
- Rising income and wealth inequality
- Rising levels of private and public debt in emerging economies
- Decline in commodity prices
- Decline in the price of crude oil
- Acceleration of innovation in industrial world, creative destruction and disruptive technologies – Schumpeter is back!
- Geopolitical instability in Eastern Europe and Russia
- Geopolitical instability in the Arab world

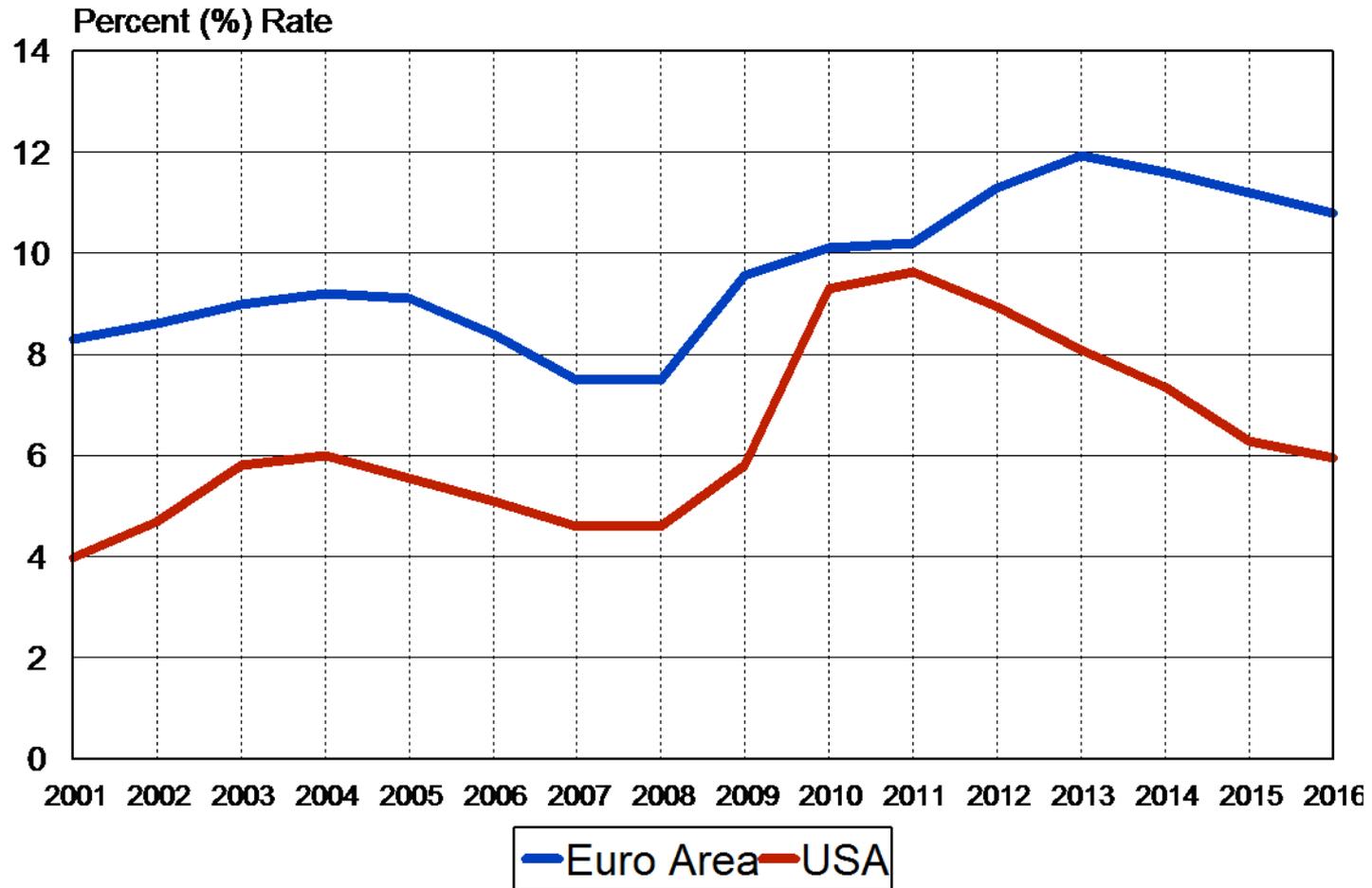
Growth in 4 Principal Economies



Inflation in 4 Principal Economies



Elevated Unemployment Levels



Stagnant Wage Growth

Where is the Wage Growth?

It is not a precondition for higher rates but the Fed would get more confident if wages pick up

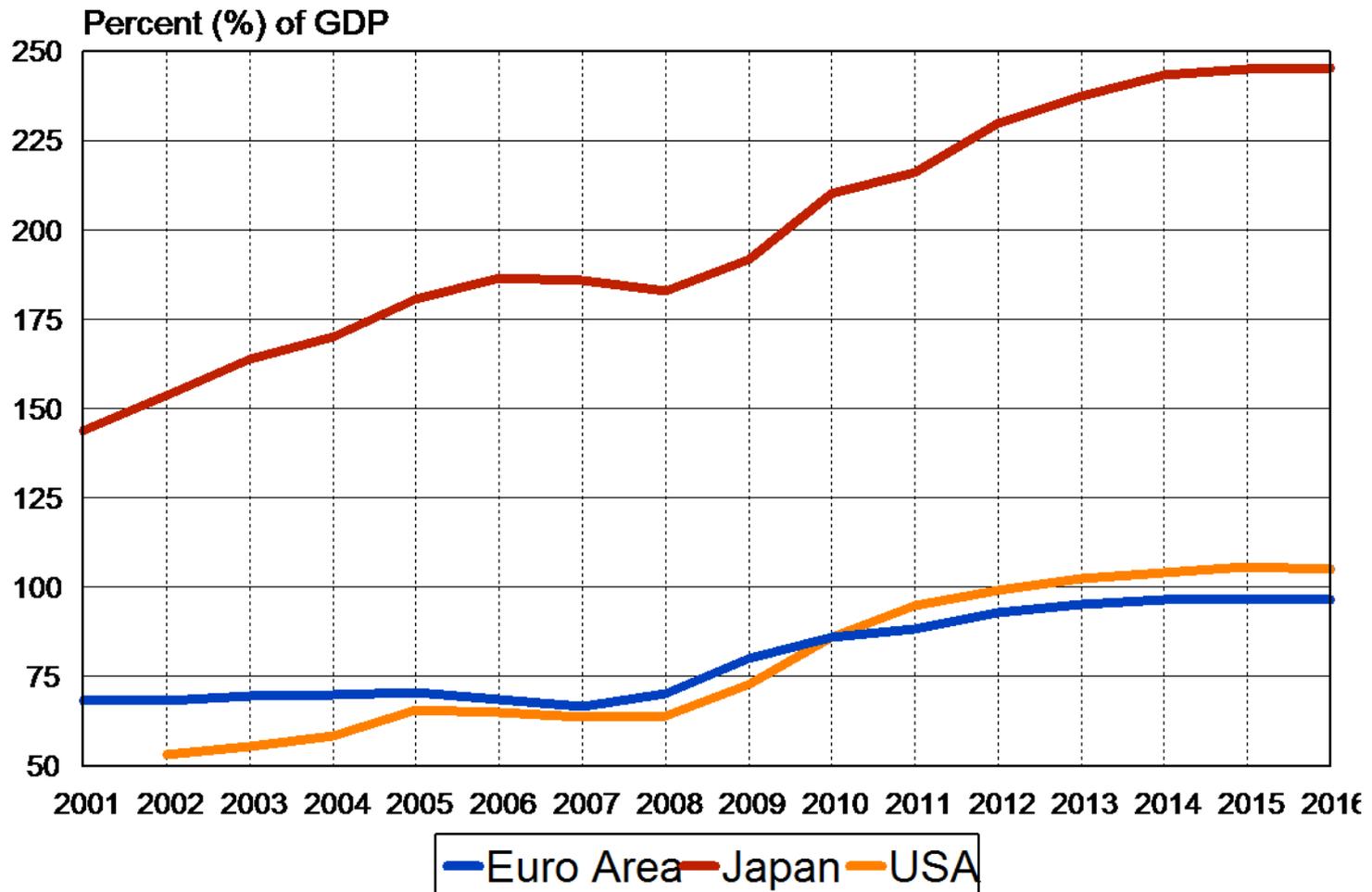
■ US Average Hourly Earnings All Employees Total Private Yearly Percent Change SA



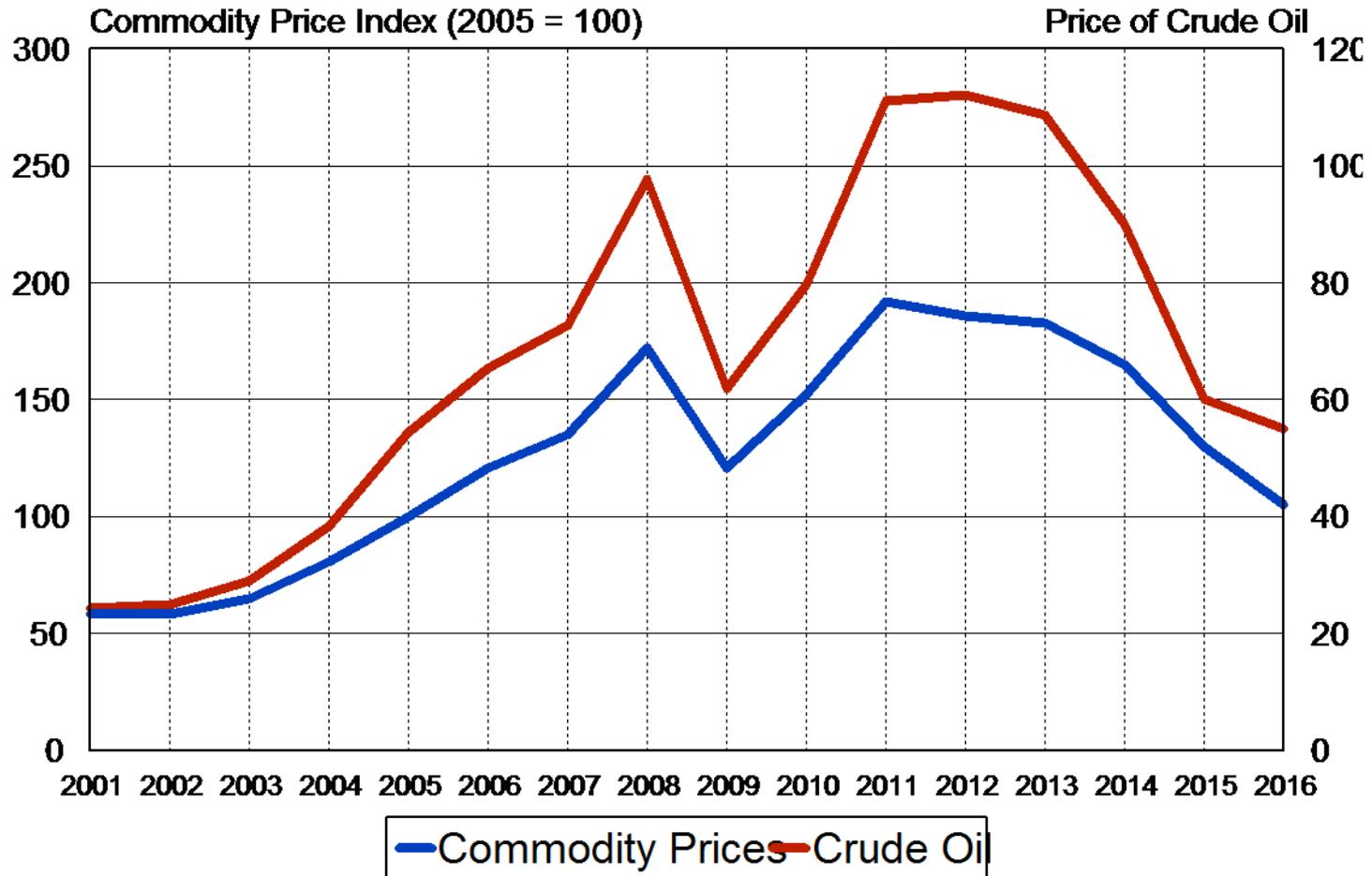
U.S. Labor Department

Bloomberg 

Elevated Gross Public Debt Levels



Falling Commodity and Oil Prices

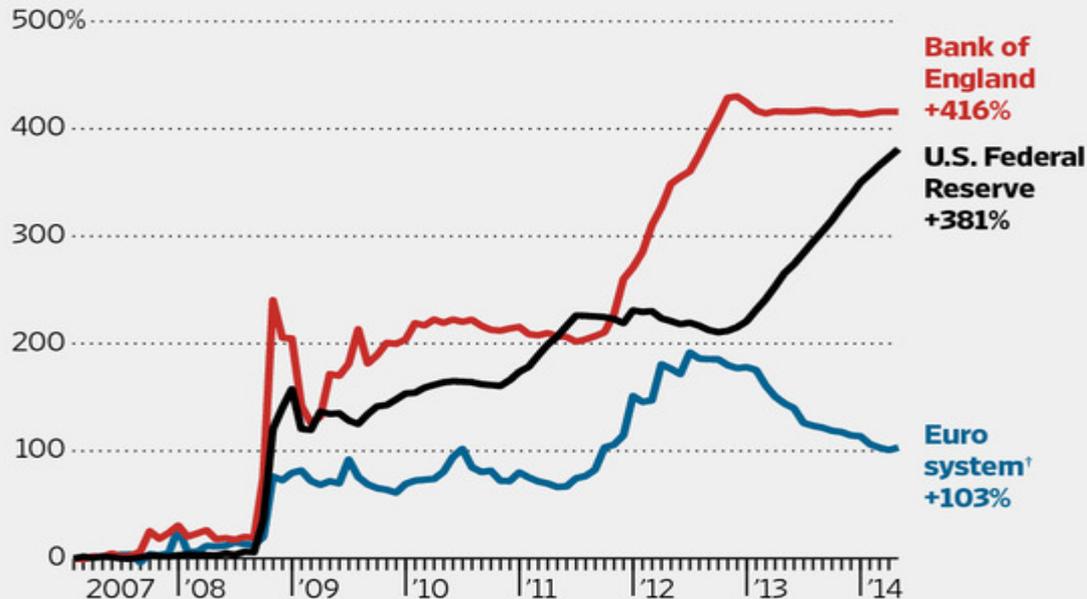


Unorthodox Monetary Policies

Out of Balance

The European Central Bank's balance sheet has fallen sharply in recent years, as other central banks expanded or maintained large holdings of assets.

Change in the balance sheets since 2007*



*Chart shows simplified balance sheets that make it easier to compare parts of the balance sheets that affect monetary policy.

†The combined central banks of the euro zone members

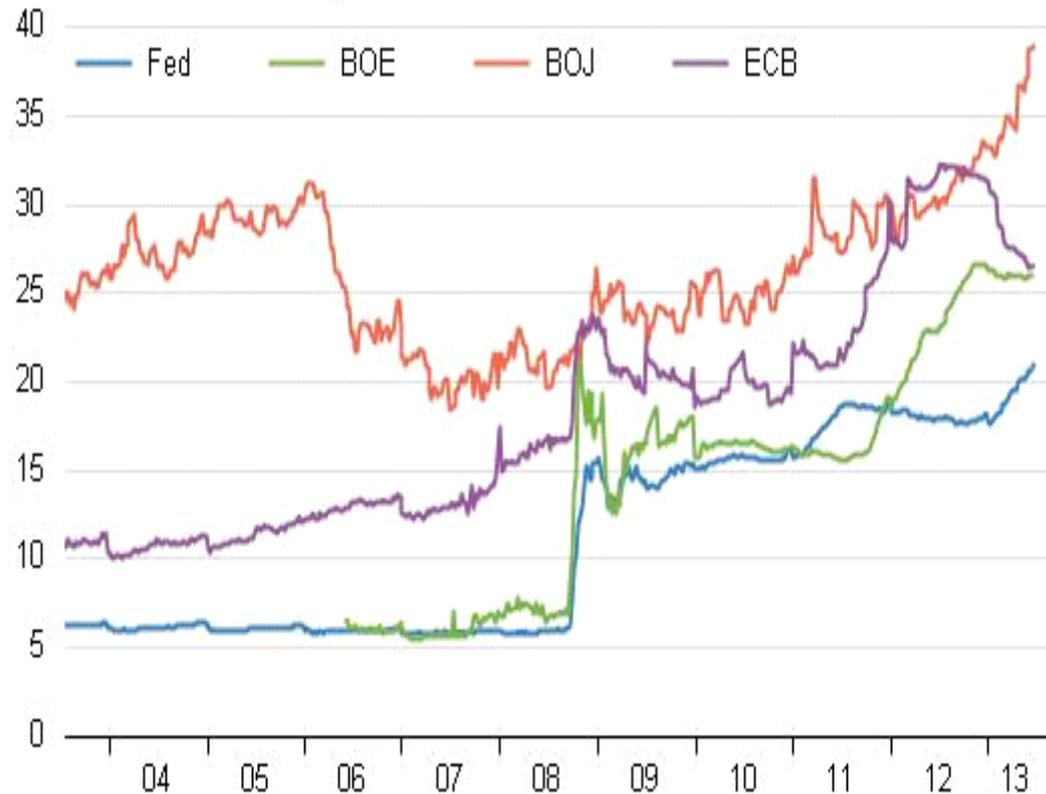
Sources: European Central Bank; Federal Reserve; Bank of England

The Wall Street Journal

Unprecedented Quantitative Easing

Balance sheets as percent of GDP

Central bank assets as a percent of IMF nominal GDP forecast - %



Source: Thomson Reuters Datastream

V. Flasseur, 23/07/2013

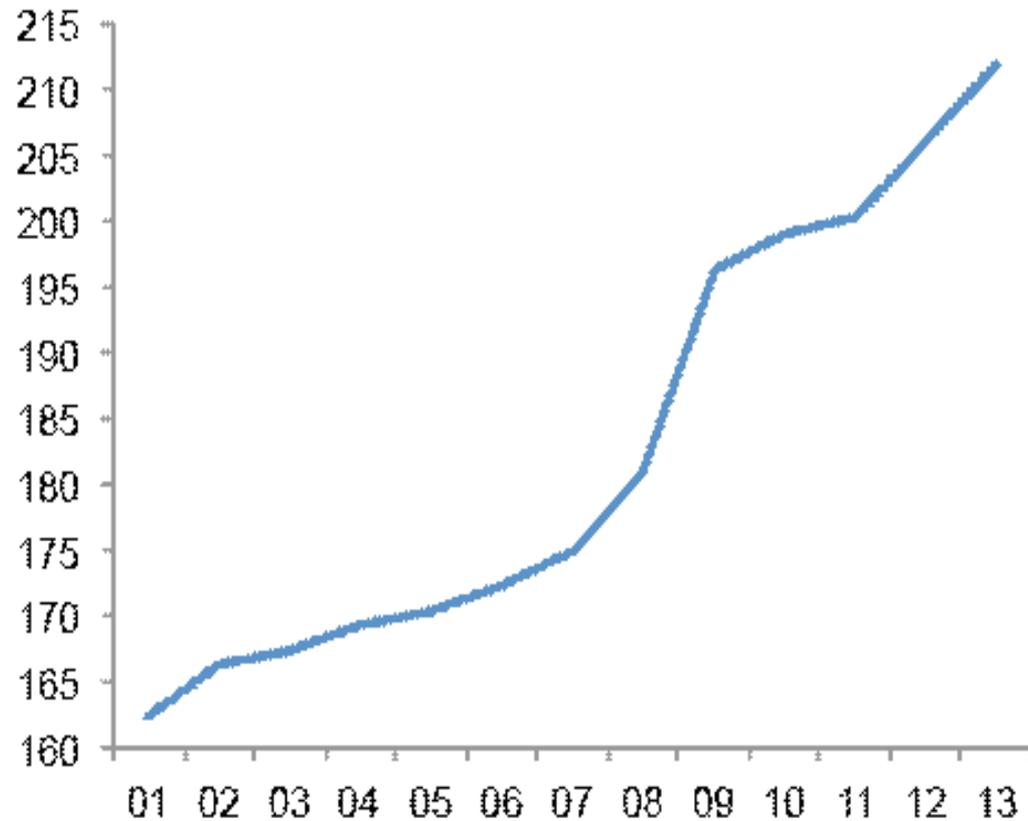
Record Low Long-term Interest Rates

The risk-free return has never been so low since Noah stepped out of his Ark

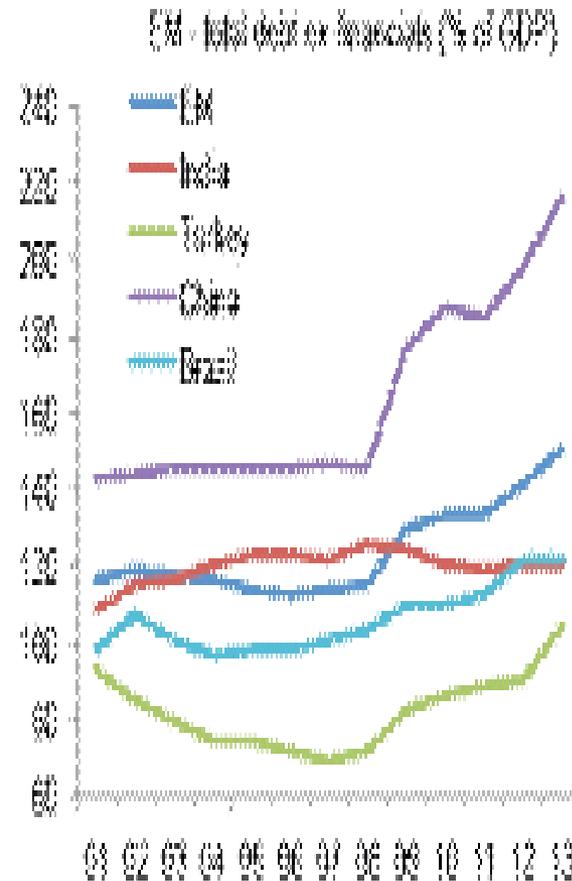
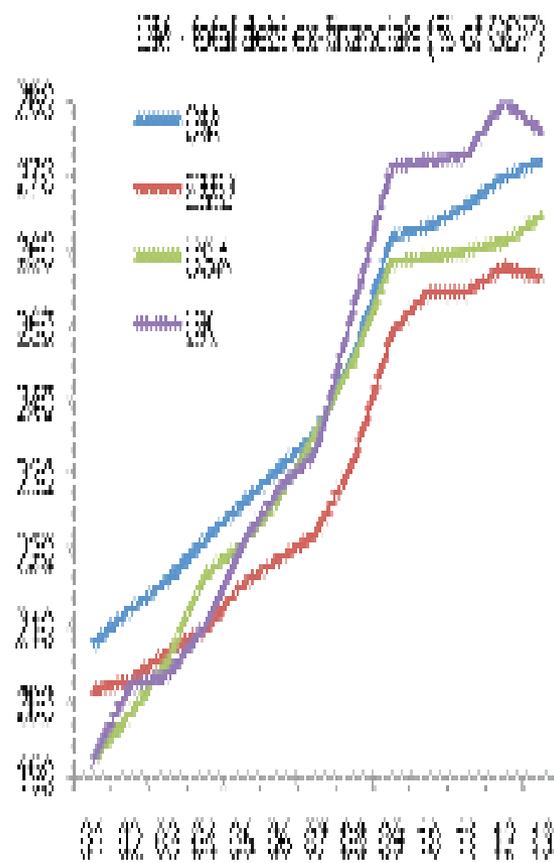


Global Debt-to-GDP Ratio: 2001-2013

Deleveraging? What deleveraging?

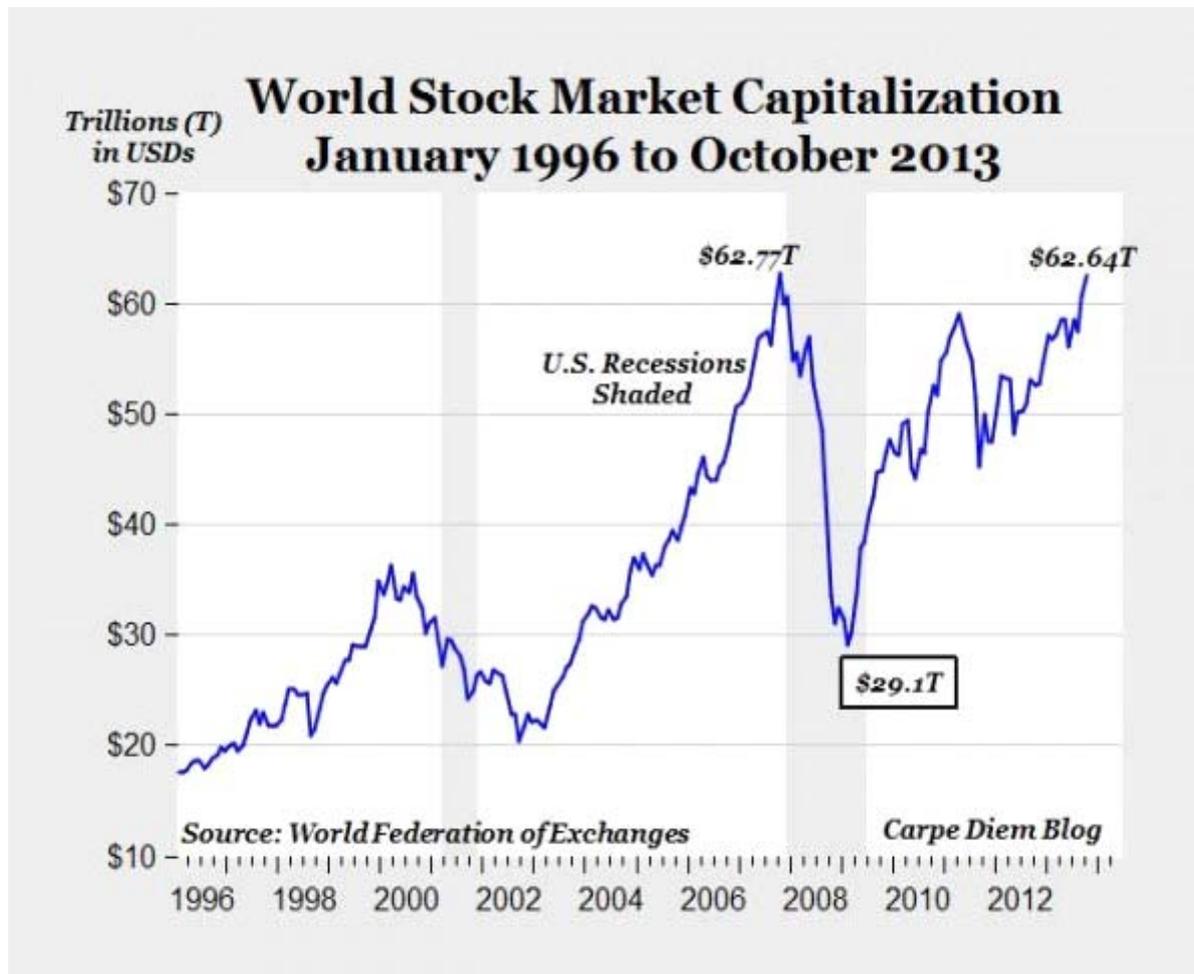


Debt Ratios Continue to Rise Especially in China



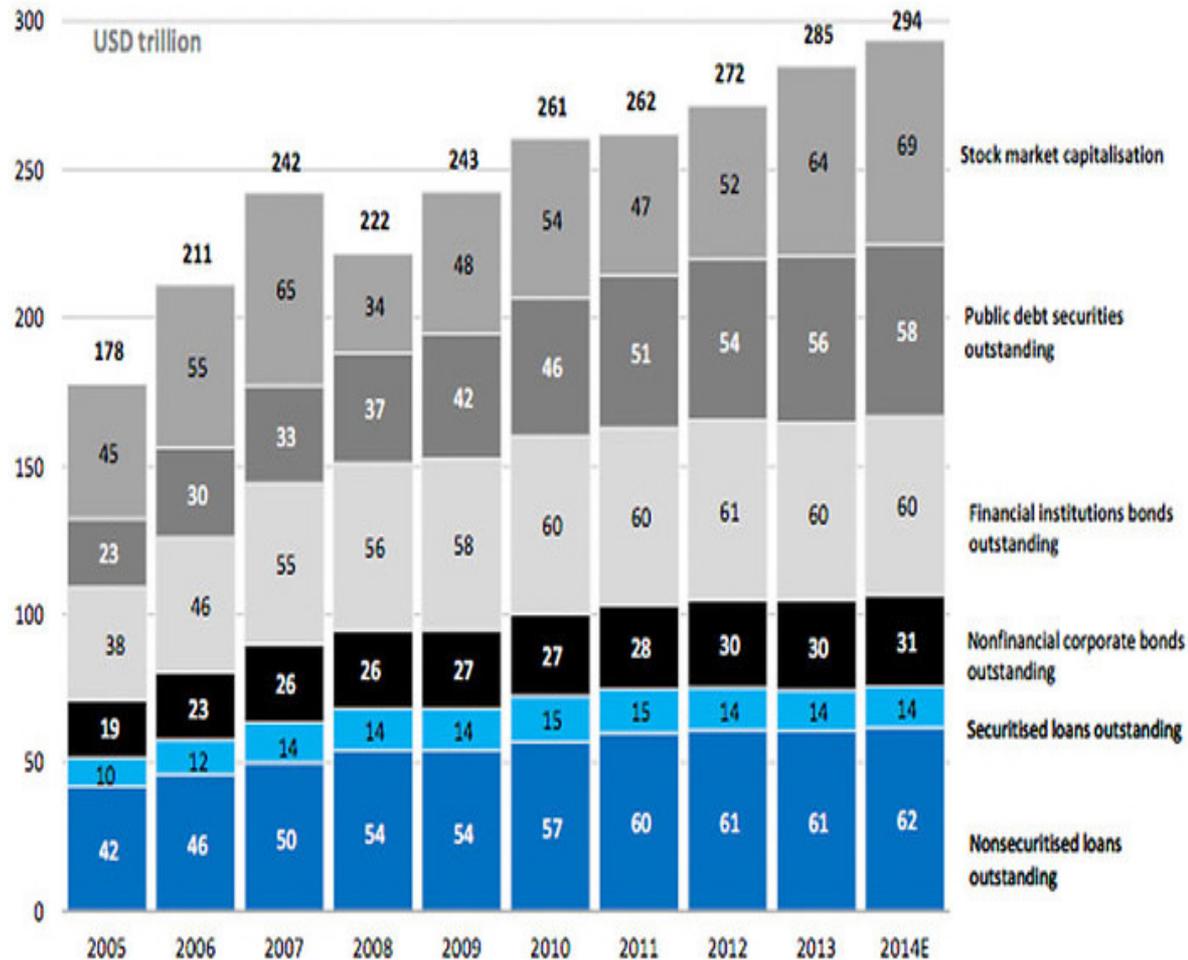
World Stock Market Capitalization Has Reached New Records

Global stock market capitalization has reached \$69 Trillion, surpassing previous record peak



Growing Disconnect Between the Real and the Financial Economy

Global financial assets

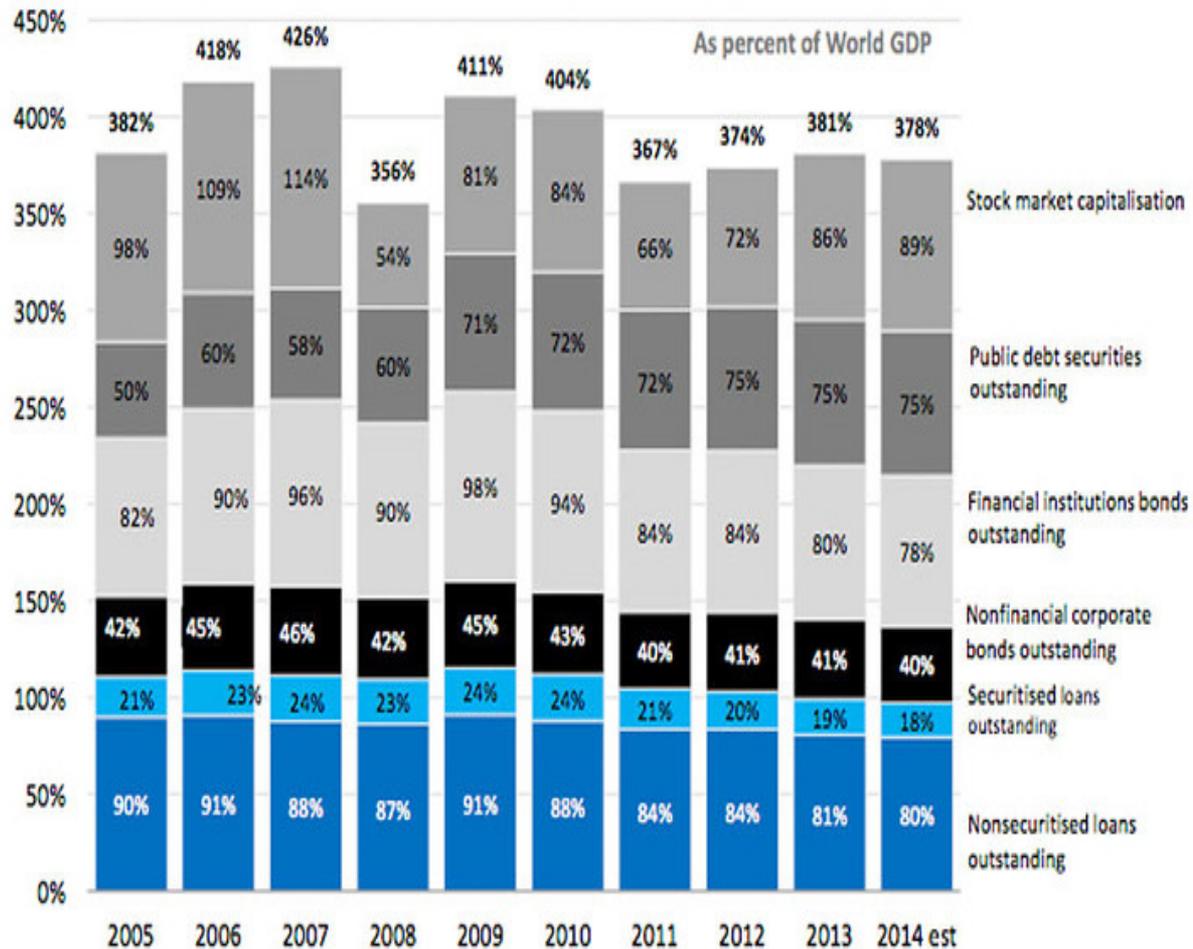


Asset Inflation on the back of Product Disinflation

- Global stock market capitalization has more than doubled since the Federal Reserve started its quantitative easing program in 2008
- Of the world's \$294 trillion in financial assets, global stock market capitalization has grown to \$69 trillion dollars from \$34 trillion in 2008
- That's higher than in 2007, just before the financial crisis, when the value of global stocks reached \$65 trillion.
- The global market cap for stocks as a percent of world GDP, however, is lower than it was in 2007. The valuation of the world's financial assets is estimated at 378% of global GDP, with 89 percentage points of that in global stocks.
- That's a far cry from 2007 when the value of financial-asset investments represented 426% of global GDP, with 114 percentage points of that in stocks.

The Asset Bubble May Grow Still

Financial assets as % of global GDP



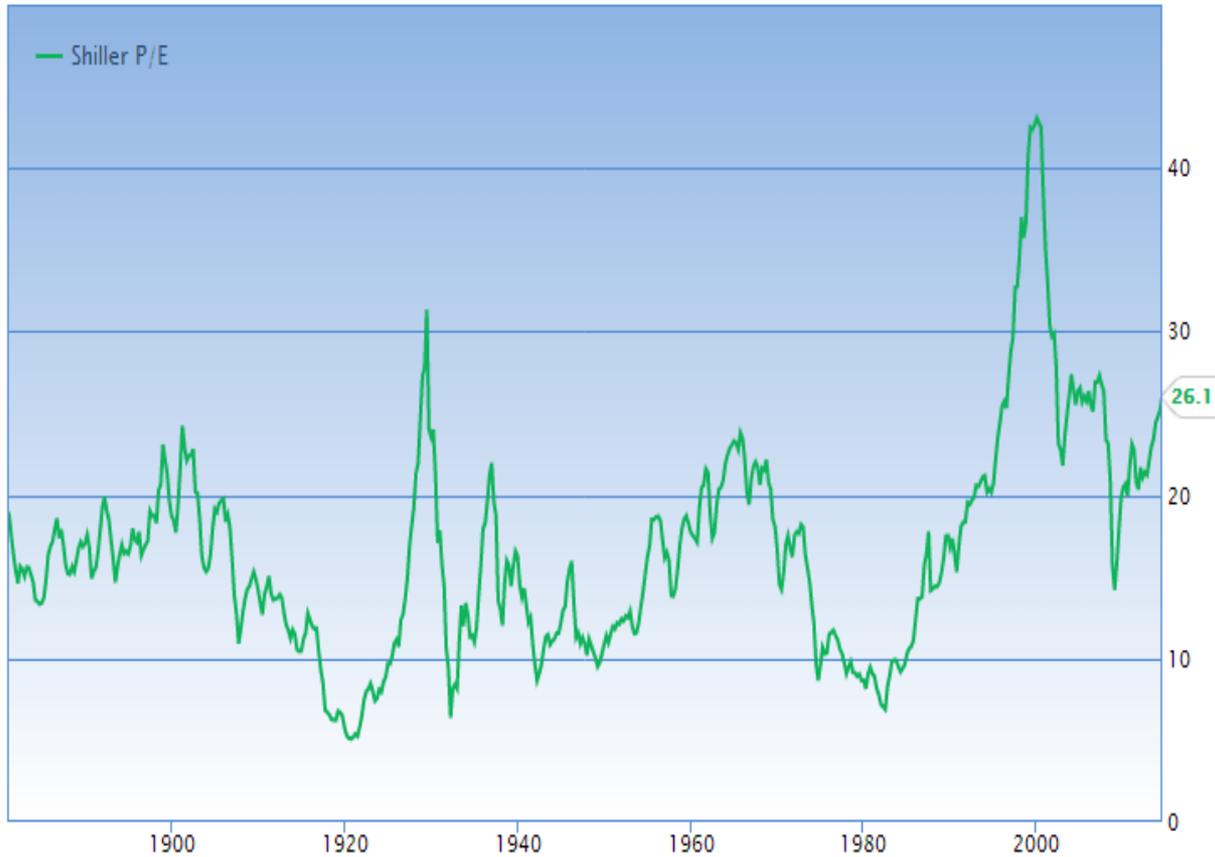
S&P 500 Dividend Yield

High prices low dividends

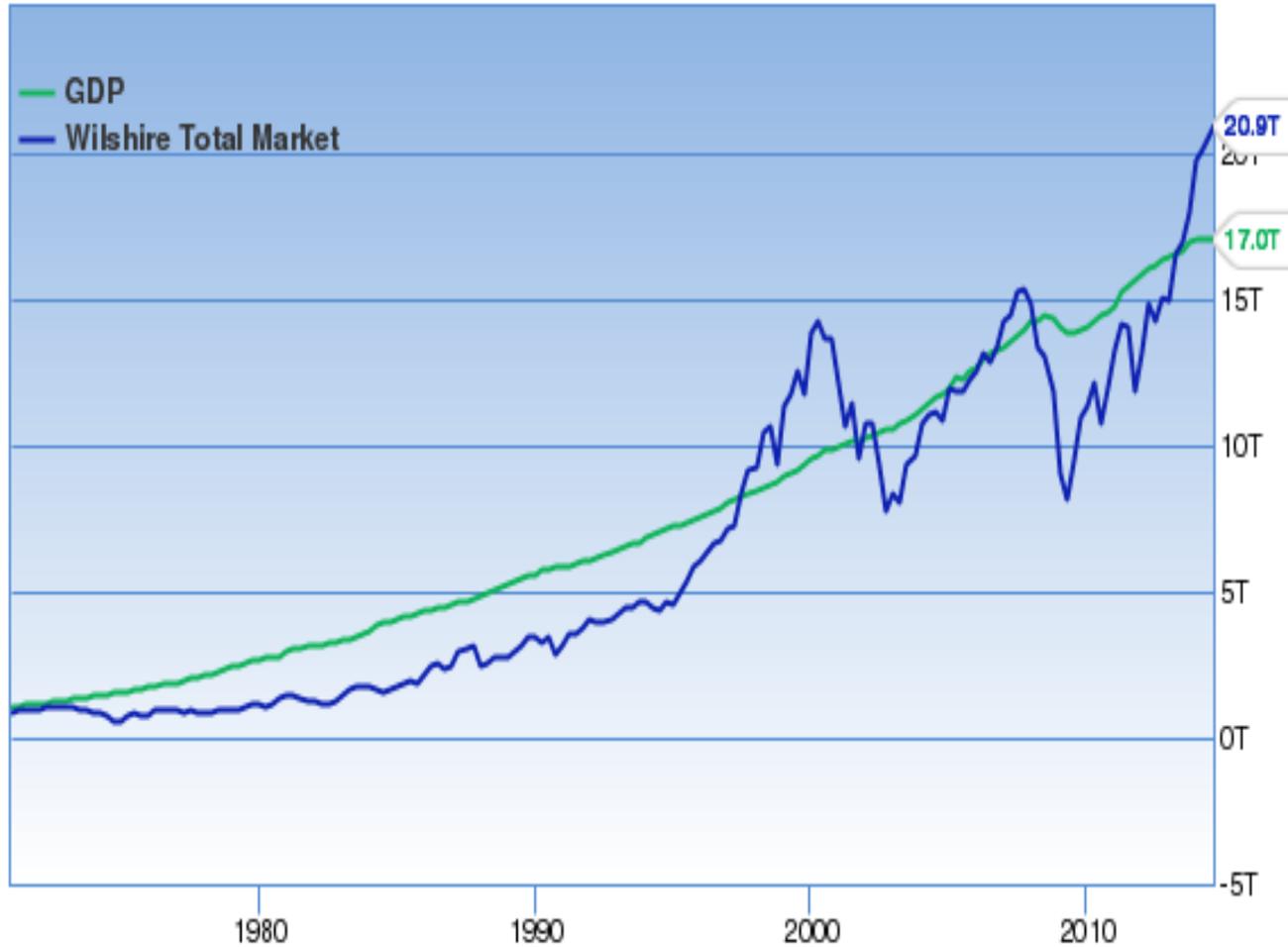


Shiller Price/Earnings Ratio

Overvalued equity markets

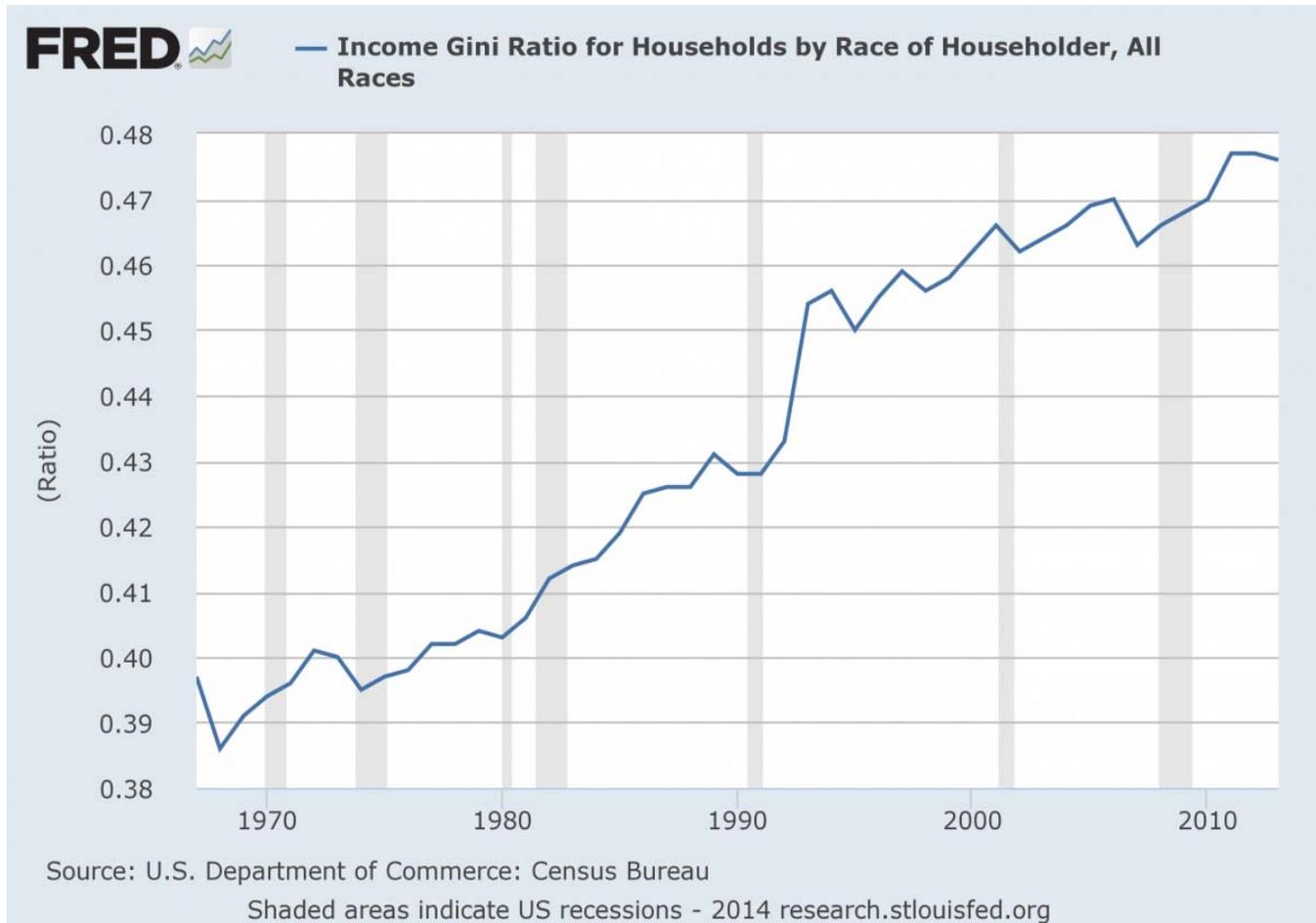


US Market Capitalization Exceeds GDP

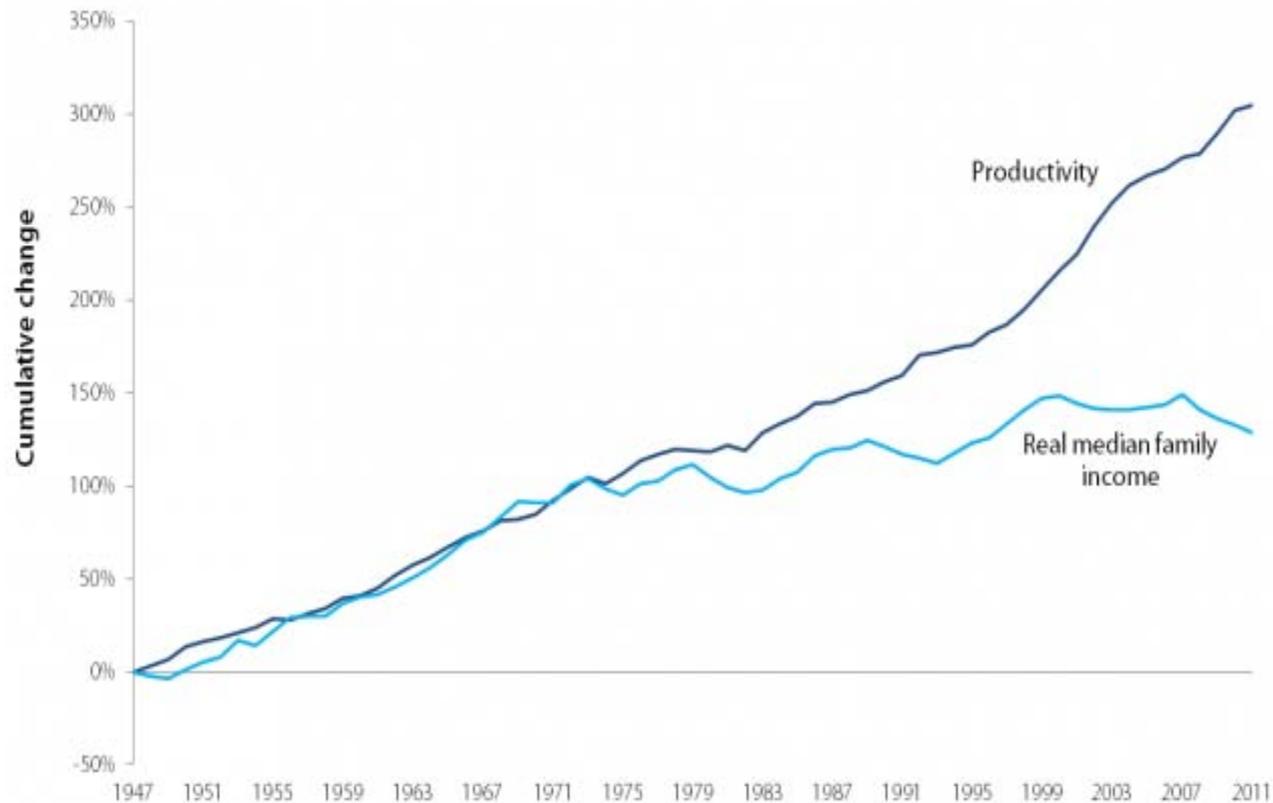


Rising Income Inequality

Income inequality has risen by 25% over the past 40 years in the USA



Disconnect Between Productivity Growth and Median Household Income

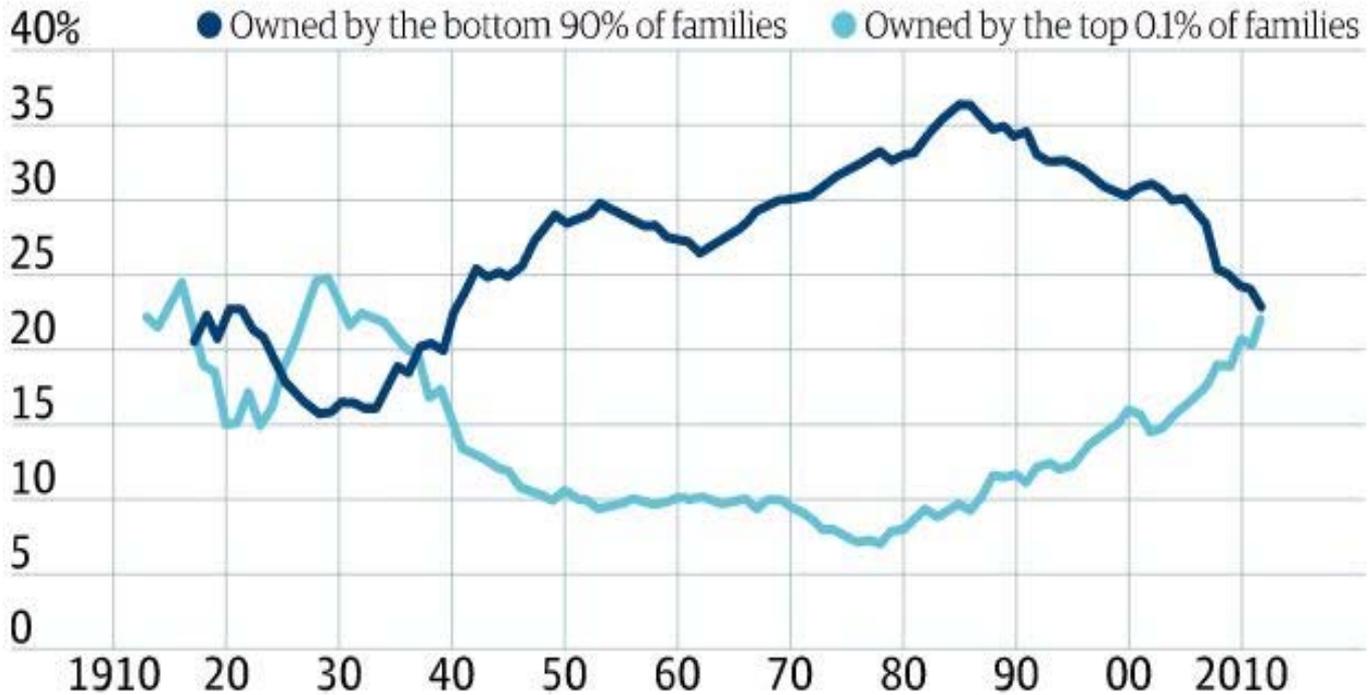


Source: Authors' analysis of Current Population Survey Annual Social and Economic Supplement *Historical Income Tables*, (Table F-5) and Bureau of Labor Statistics, *Productivity - Major Sector Productivity and Costs Database* (2012)

Rising Wealth Inequality

The share of total US wealth

1913-2012



SOURCE: WASHINGTON CENTER FOR EQUITABLE GROWTH

Increasing Wealth Inequality and Idle Profits

“U.S. Companies Are Stashing \$2.1 Trillion Overseas to Avoid Taxes”

by [Richard Rubin](#)

March 4, 2015

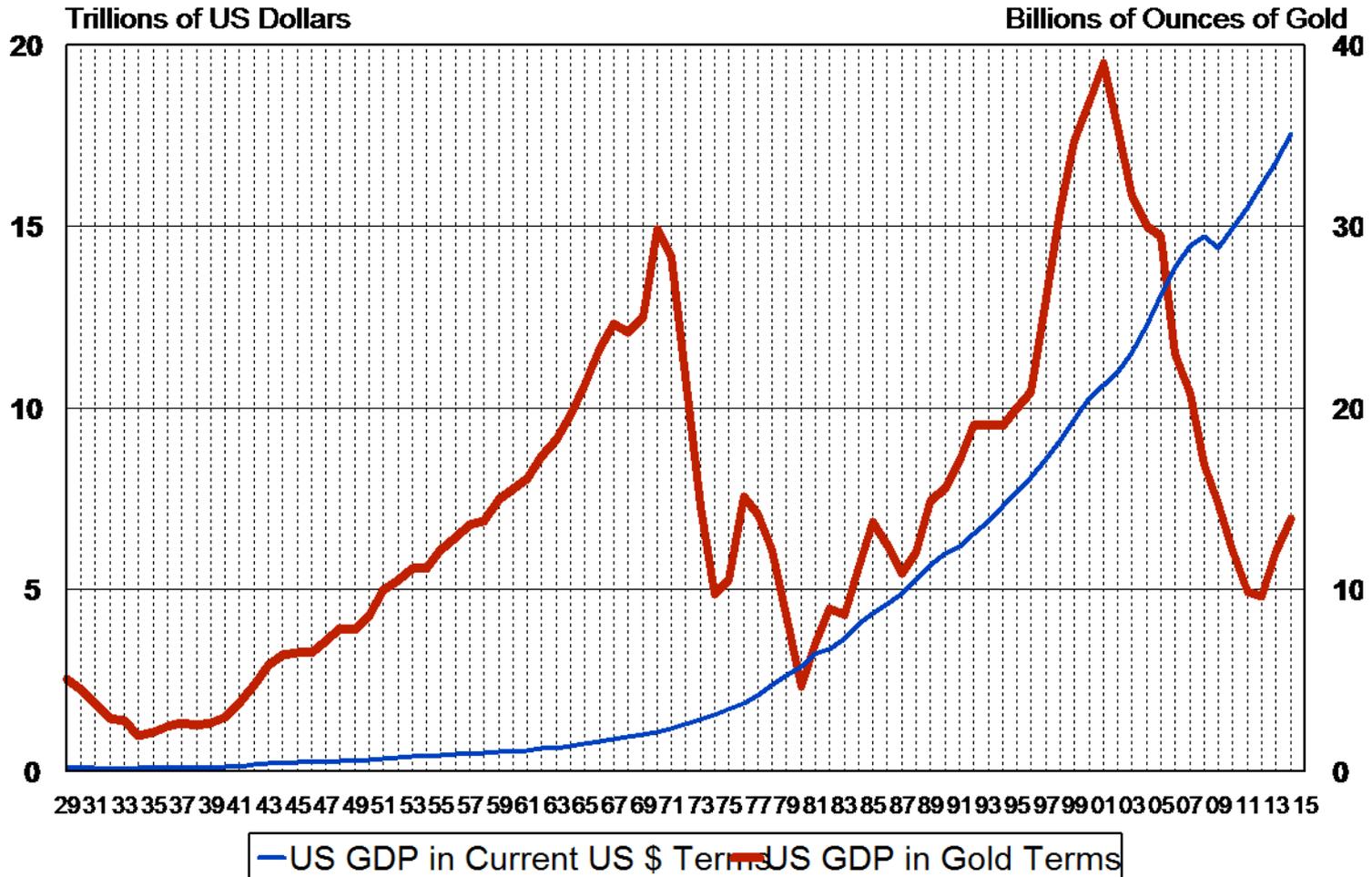
Apple, Microsoft, Google, General Electric
Bloomberg.com

The Effect of Disruptive Technologies

- Here are a few examples of disruptive technologies:
- The personal computer ([PC](#)) displaced the typewriter and forever changed the way we work and communicate.
- The [Windows operating system's](#) combination of affordability and a user-friendly interface was instrumental in the rapid development of the personal computing industry in the 1990s. Personal computing disrupted the television industry, as well as a great number of other activities.
- [Email](#) transformed the way we communicating, largely displacing letter-writing and disrupting the postal and greeting card industries.
- [Cell phones](#) made it possible for people to call us anywhere and disrupted the telecom industry.
- The [laptop computer](#) and [mobile computing](#) made a mobile workforce possible and made it possible for people to connect to corporate networks and collaborate from anywhere. In many organizations, laptops replaced desktops.
- [Smartphones](#) largely replaced [cell phones](#) and [PDAs](#) and, because of the available apps, also disrupted: pocket cameras, MP3 players, calculators and [GPS devices](#), among many other possibilities. For some mobile users, smartphones often replace laptops. Others prefer a [tablet](#).
- [Cloud computing](#) has been a hugely disruptive technology in the business world, displacing many resources that would conventionally have been located in-house or provided as a traditionally hosted service.
- [Social networking](#) has had a major impact on the way we communicate and -- especially for personal use -- disrupting telephone, email, instant messaging and event planning.

US GDP IN NOMINAL DOLLARS vs. US GDP IN GOLD TERMS: 1929 – 2014

A Resurging US economy will surprise the sceptics



Global Economic Environment

Global economic growth is slowing with adverse implications for exports and debt dynamics of highly indebted nations

- Europe is barely growing and flirting with deflation and at risk of renewed crisis in the Euro Zone
- Growth in China is slowing, debt levels are rising too fast
- Japan continues to be mired in stagnation
- With the exception of India and Mexico, growth in Emerging Economies is slowing while debt levels are rising
- The supply/demand balance in the world oil market has shifted towards over supply
- Commodity prices are under downward pressure and will decline
- Rising asset prices on the back of a stagnating real economy increase the risks of a renewed round of financial crisis
- The only bright spot is the resurging US economy

Thank You

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