



Still Searching for a New Normal A View of the Global Economy at Summer's End

September 2014

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Themes

- **Six years on, global economies are still seeking renewed normalcy after the financial crisis**
 - The process of reckoning and rebalancing is ongoing
- **Labor markets are a focus and a frustration**
 - Progress requires a range of policy steps
- **Crisis-era policy remains firmly in place**
 - Austerity, low interest rates, and rising regulation





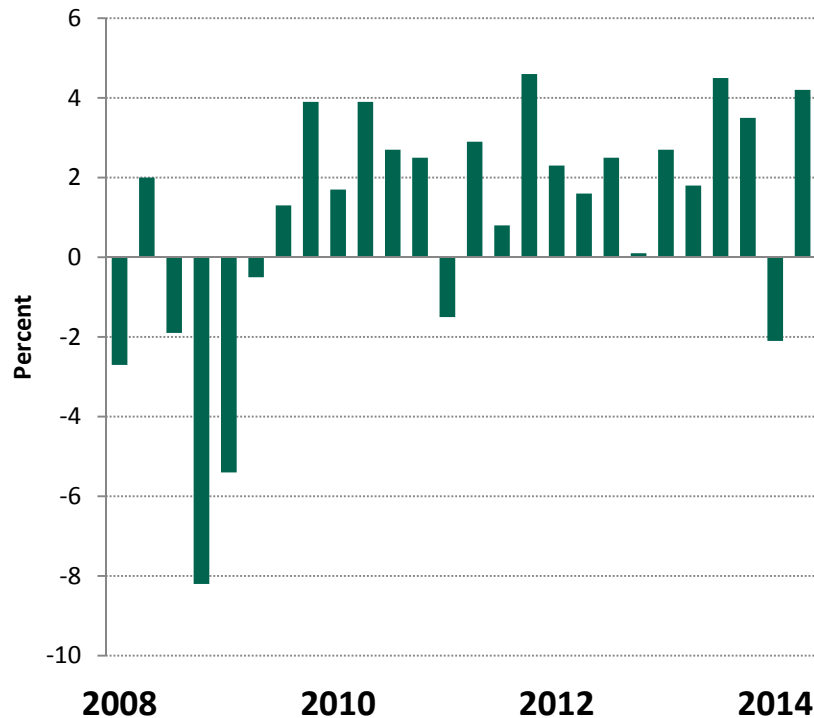
Economic Growth



The Pace of Recovery in the US

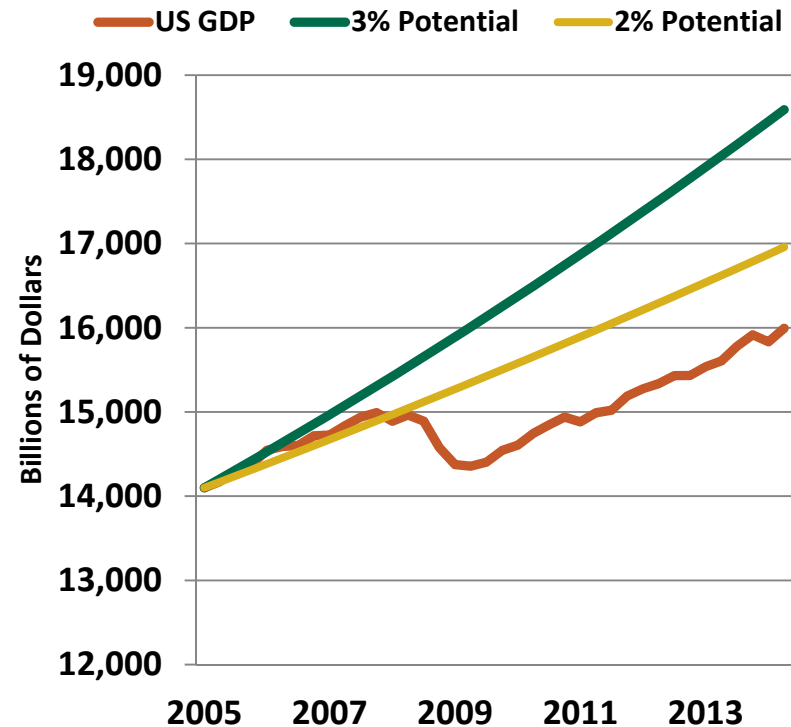
- Gathering some momentum
- Output gap remains significant

US Real GDP Growth



Source: Bloomberg

Output Gap: United States



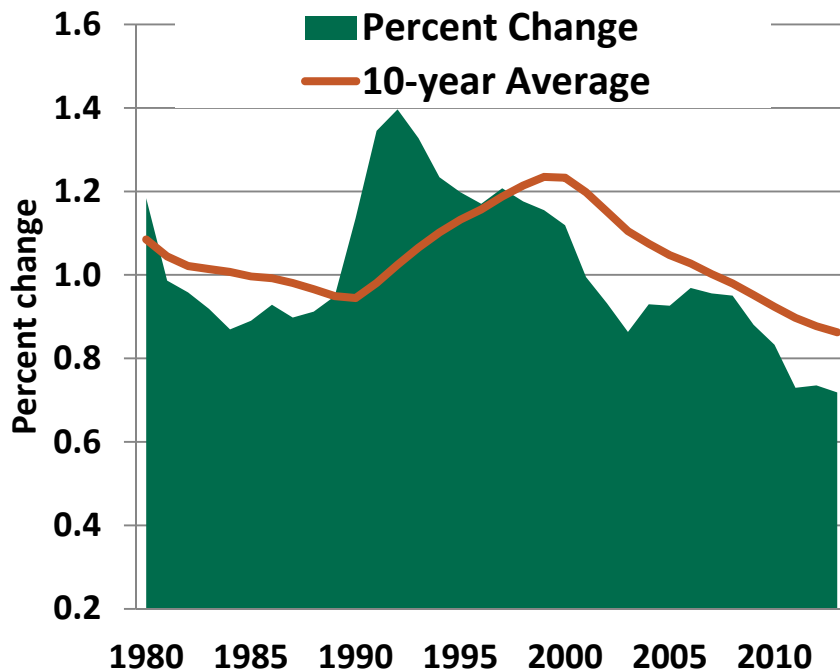
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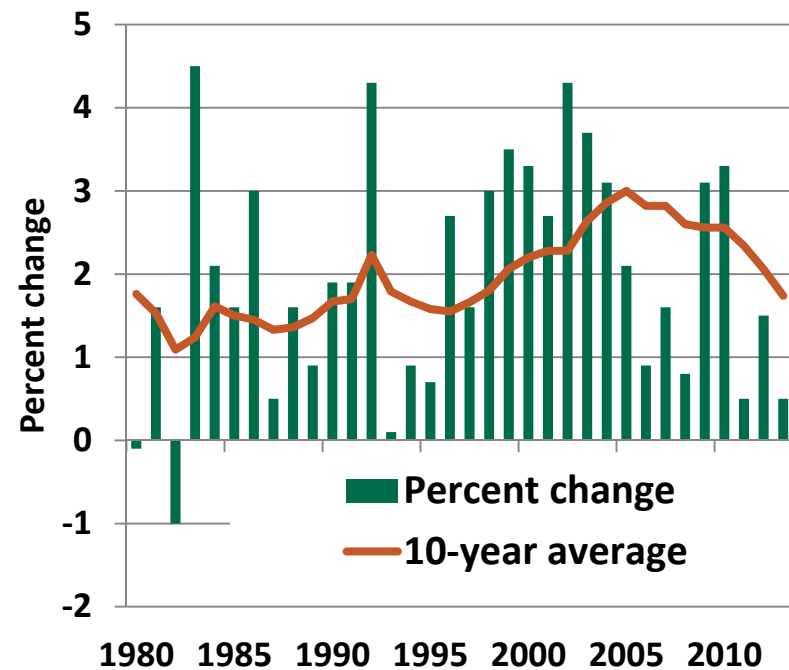
The Productivity Paradox

- What is causing the decline?
- Major implications for markets and policy

U.S. Population Growth



U.S. Productivity



Source: Haver Analytics

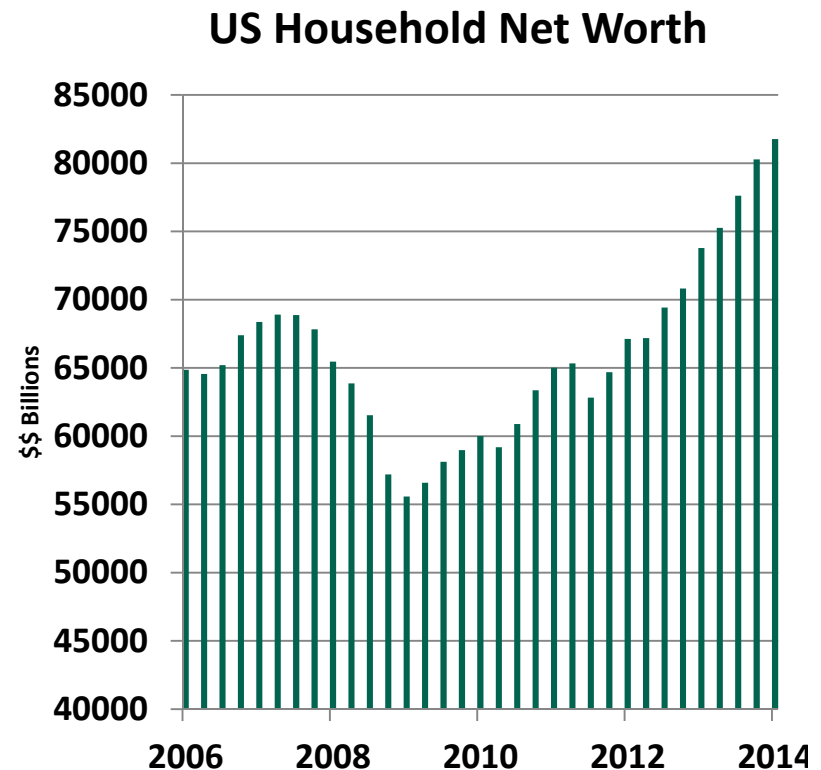
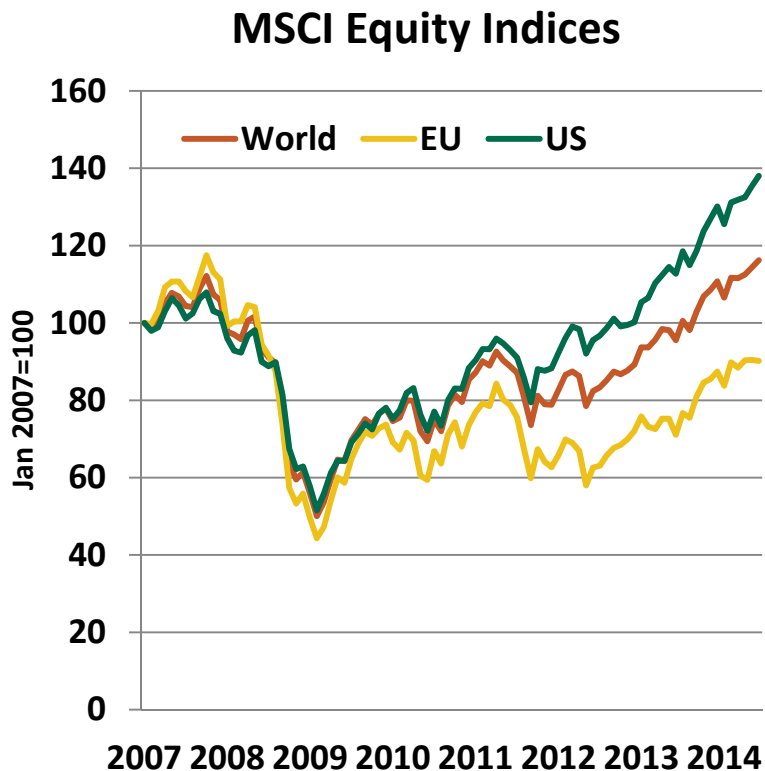


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Wealth Restoration

- Equity markets have enriched those who own stocks
- New wealth spurs spending



Sources: Bloomberg, Federal Reserve

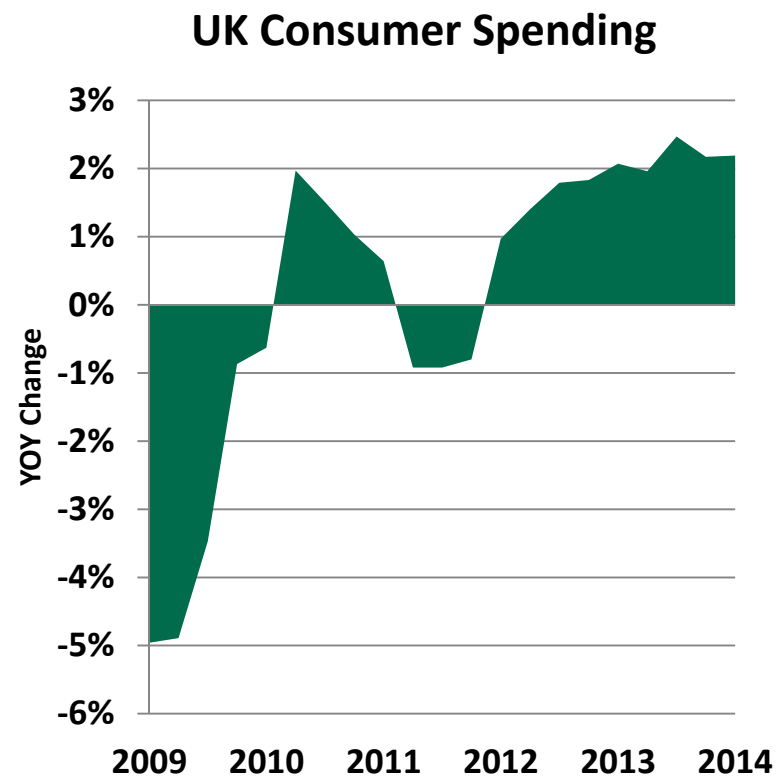
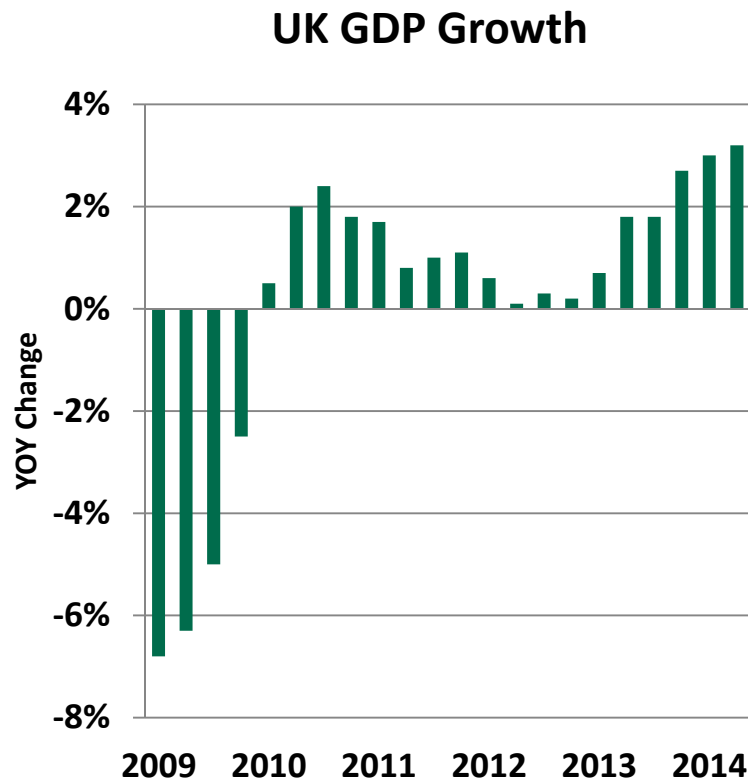


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United Kingdom

- Solid gains in the last year
- Bank of England could be the first to tighten

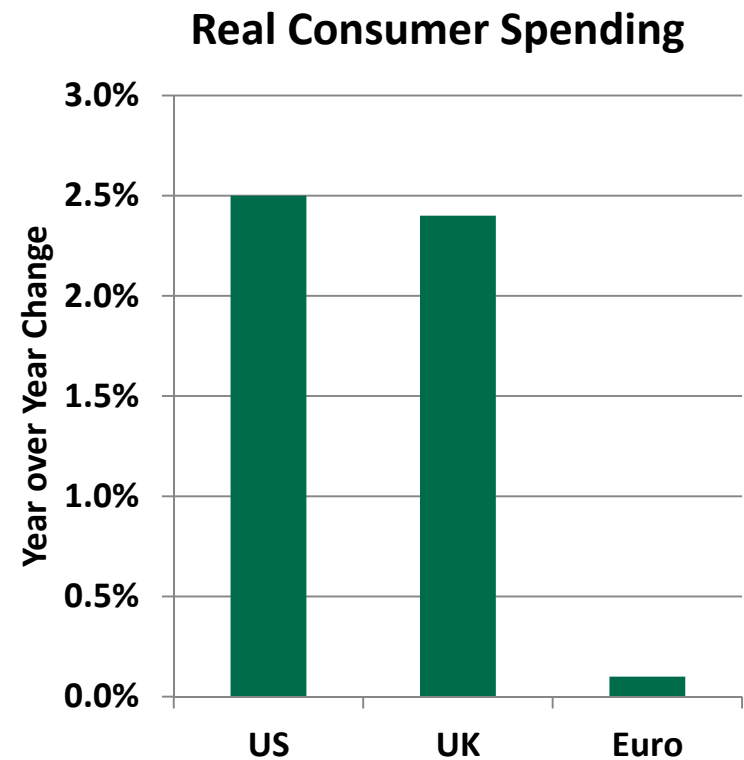
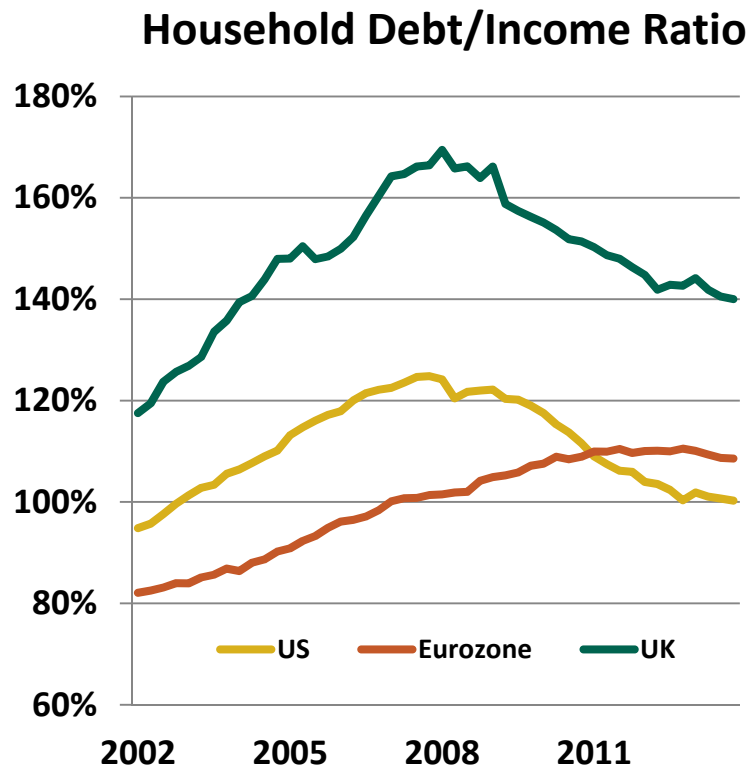


Source: Haver Analytics



The De-Leveraging Process

- Deleveraging is well along in some places, not others
- A key driver of consumption



Sources: Haver Analytics, Bloomberg



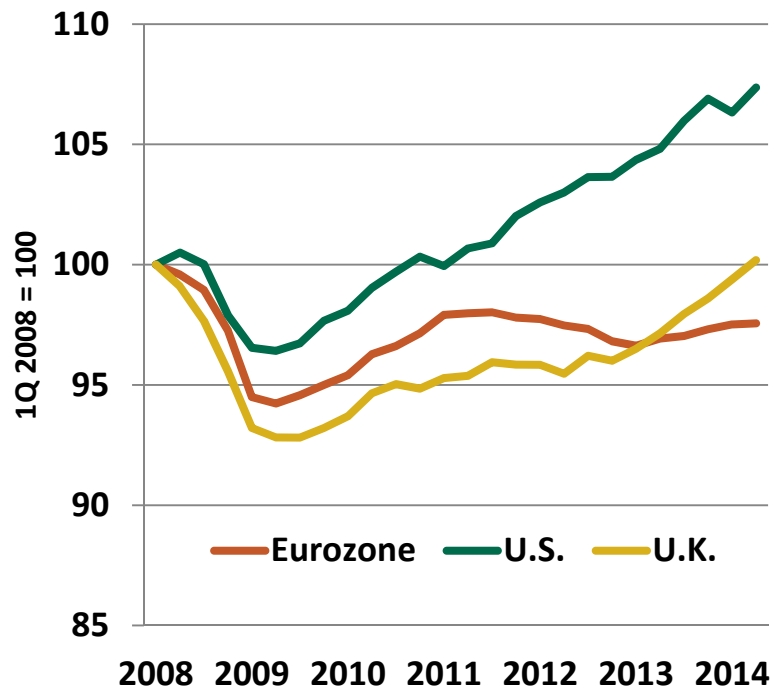
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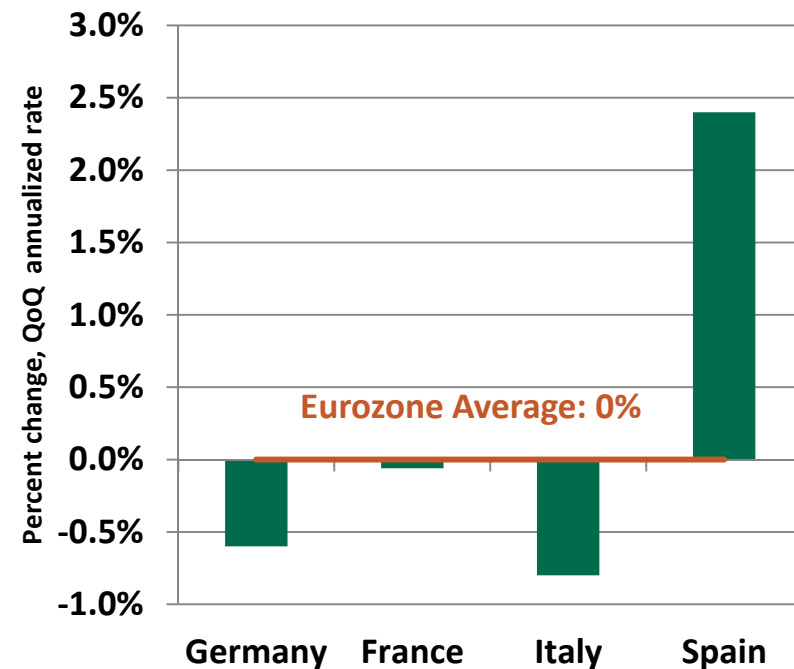
Europe's Challenges

- Eurozone growth is very soft, and uneven
- Russian sanctions will not help

Real GDP Progress



Real Gross Domestic Product (2014:2Q)



Source: Haver Analytics



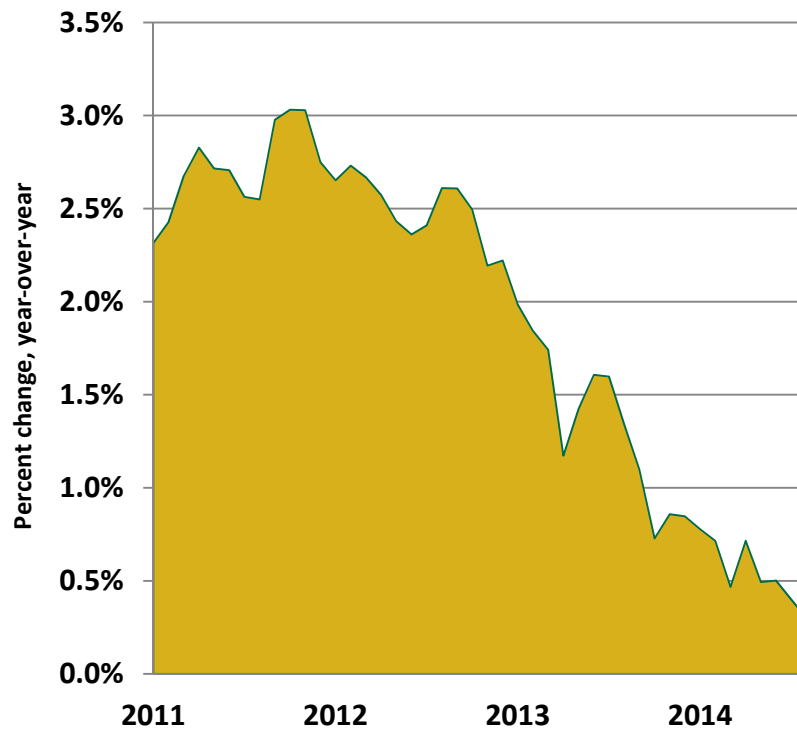
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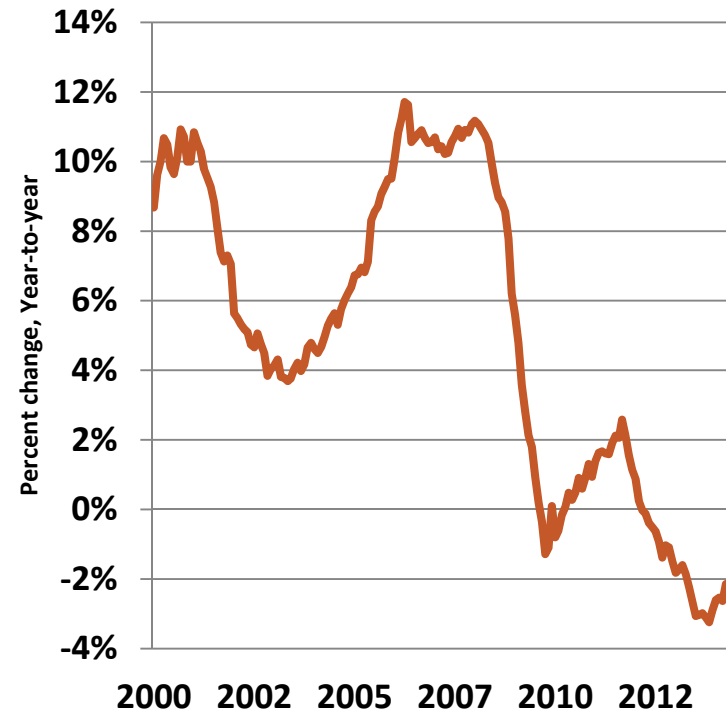
Europe's Challenges

- Deepening disinflation
- Poor bank health restricts credit

Eurozone Inflation Trends



Eurozone: Lending to the Private Sector



Source: Haver Analytics



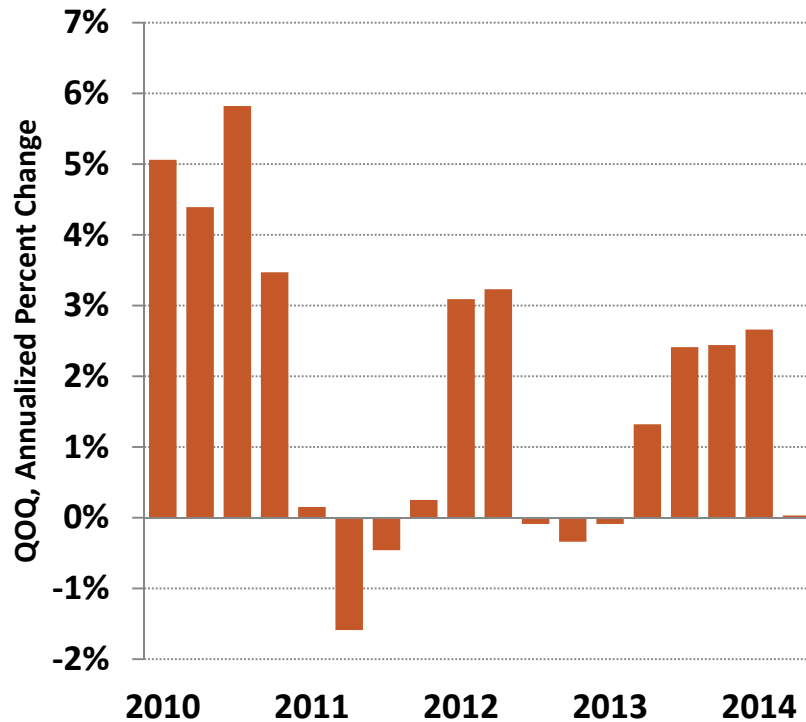
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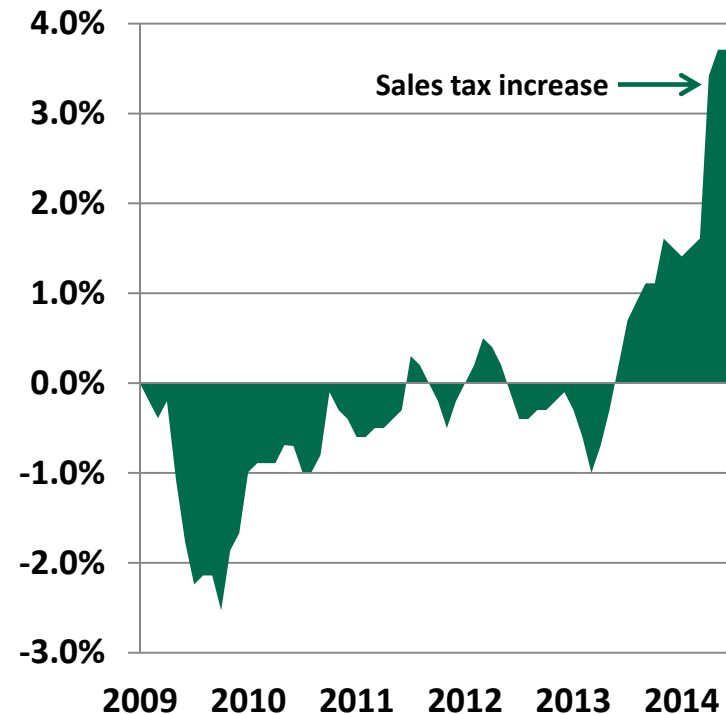
Japan: The First Arrow

- Money growth has accelerated
- Expansion proceeds with normal inflation

Japan: Real GDP Growth



Japan: YOY Inflation



Source: Haver Analytics



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China: Times of Transition

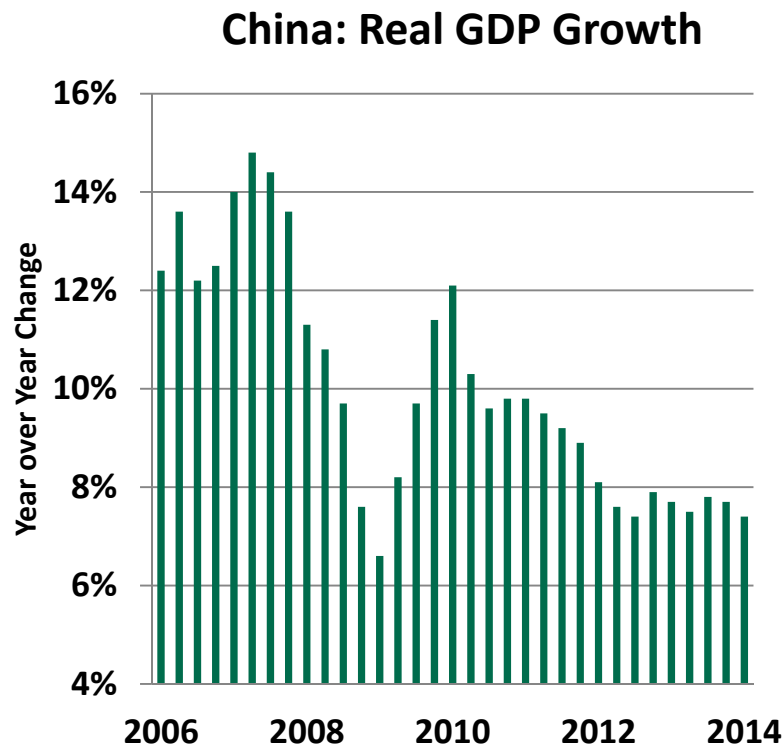
- **High growth to sustainable growth**
 - Learning to live with 7% expansion
- **Sensible real estate conditions**
 - Concern about overinvestment in housing
- **Less corruption, carbon, and credit**
 - Alignment between Beijing and regions
- **Dealing with adverse demographics**
 - China may have the world's biggest retirement challenge





China: Growth Issues?

- A challenging transition to sustainable growth
- Controlling credit without creating a crash



Sources: Haver Analytics/China Index Academy/Sofun



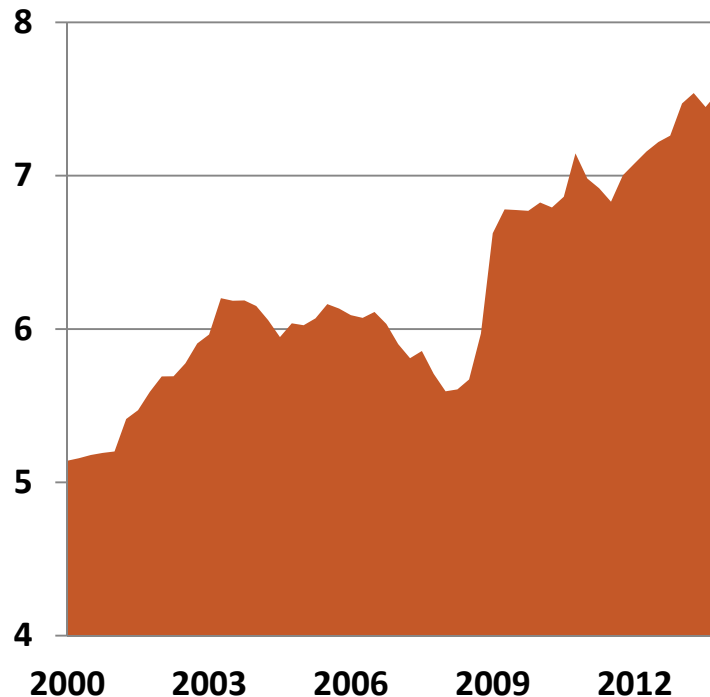
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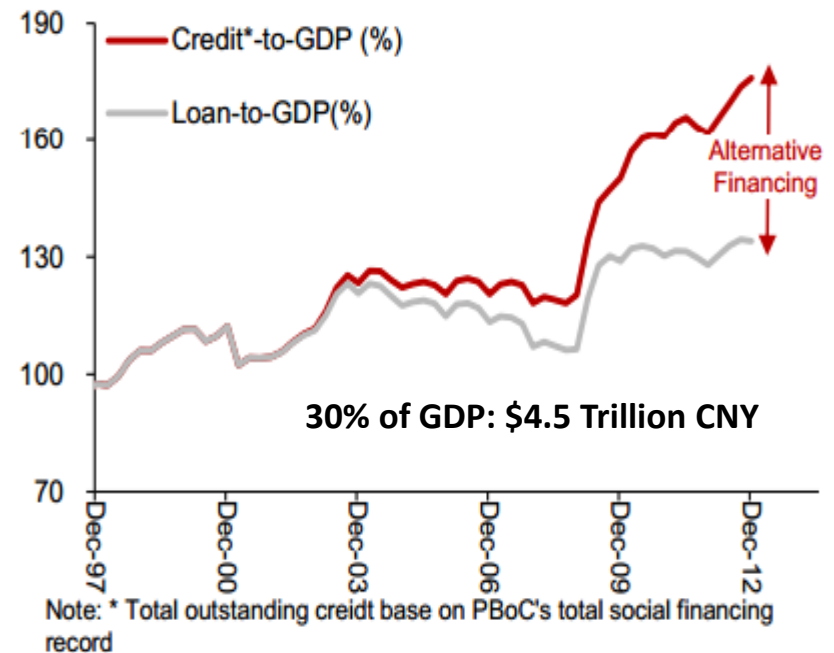
Too Much Credit?

- Rapid monetary expansion within the banking system
- Significant growth of shadow banking system

China: M2/GDP



Source: Haver Analytics, Financial Times



Source: NBS, CEIC, Credit Suisse



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Labor Markets



Global Labor Market Themes

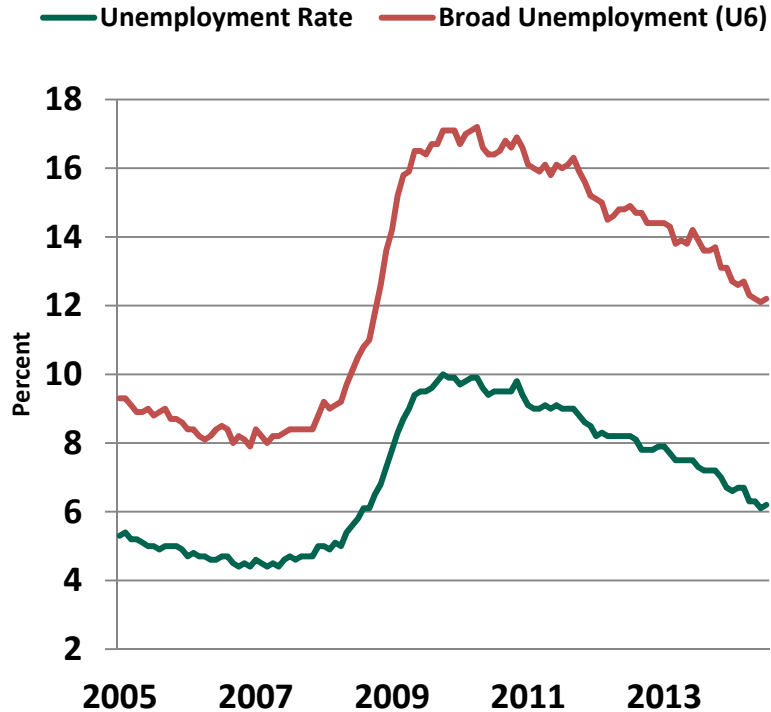
- **How much slack is left?**
 - Looking beyond unemployment rates
- **Cyclical versus structural unemployment**
 - How to separate the two?
- **Employment reforms**
 - Enhancing flexibility without compromising principles
- **How to keep the workforce vital?**
 - Demographic factors deserve attention



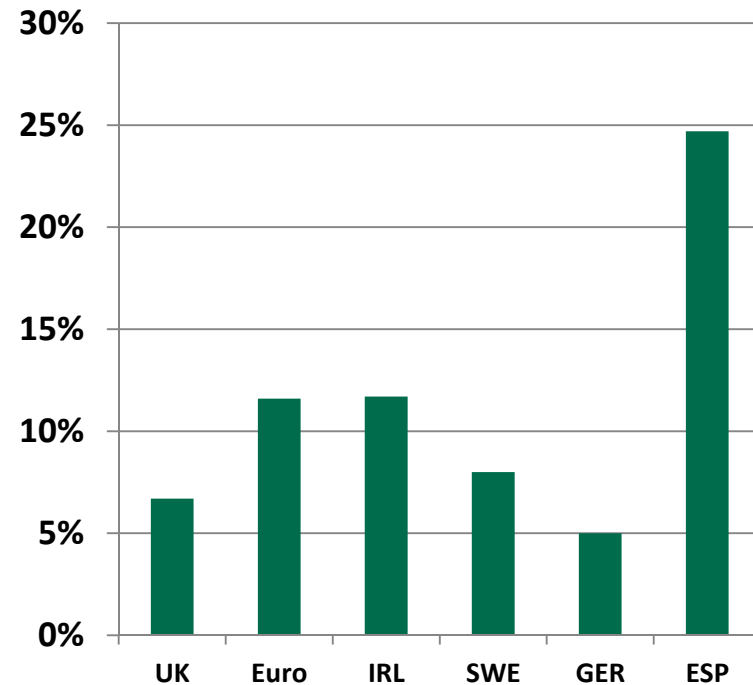
Unemployment

- Joblessness has fallen, but remains high
- Significant international divergence

US Unemployment Trends



Global Unemployment



Sources: Bureau of Labor Statistics, Bloomberg, Haver Analytics



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Labor Market Slack

- Some return to the labor force can be expected
- Conversion of part-time to full-time jobs

Labor Force Participation



“Involuntary” Part-Time Employment



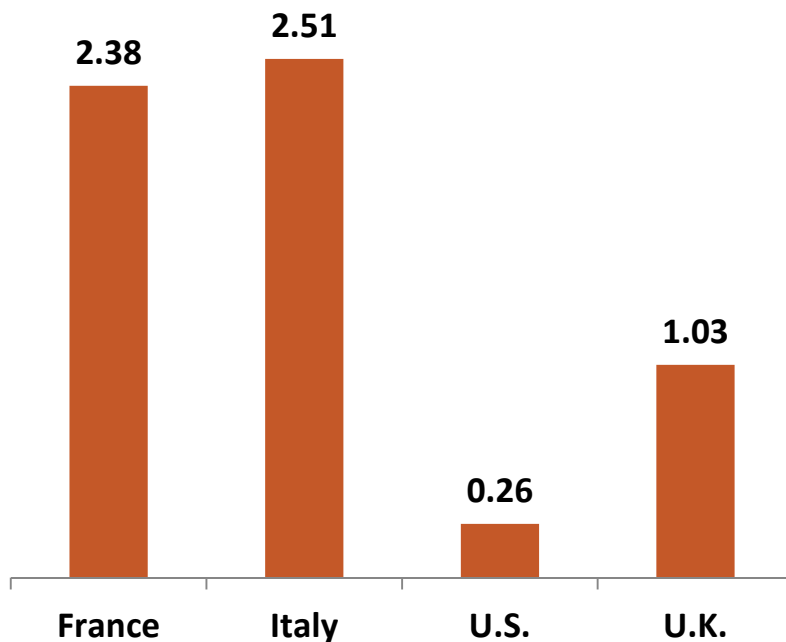
Source: OECD



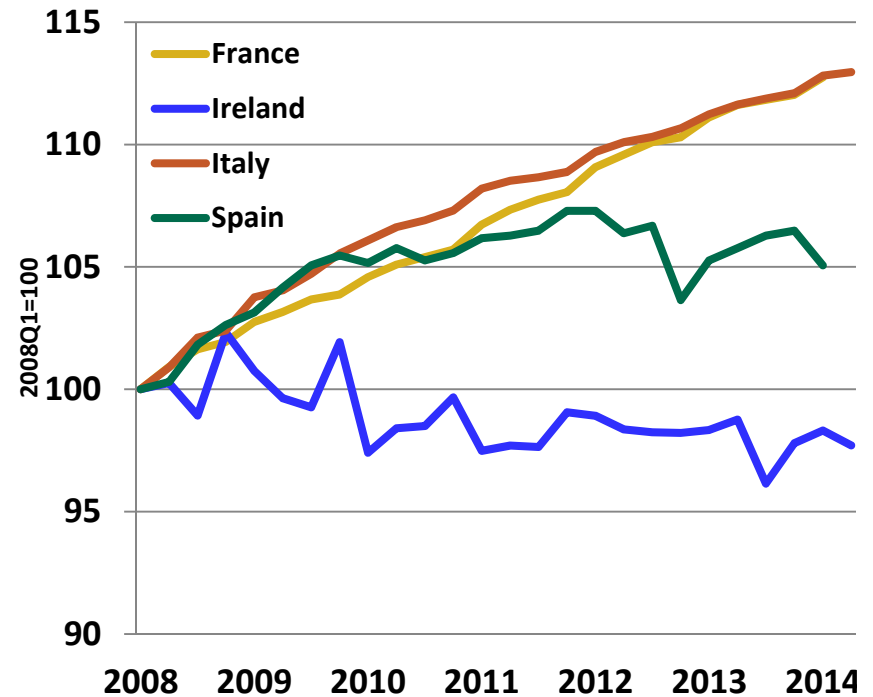
Labor Market “Rigidities”

- Structural features inhibit rebalancing
- Change is challenging

Index of Employment Protection



Nominal Wages

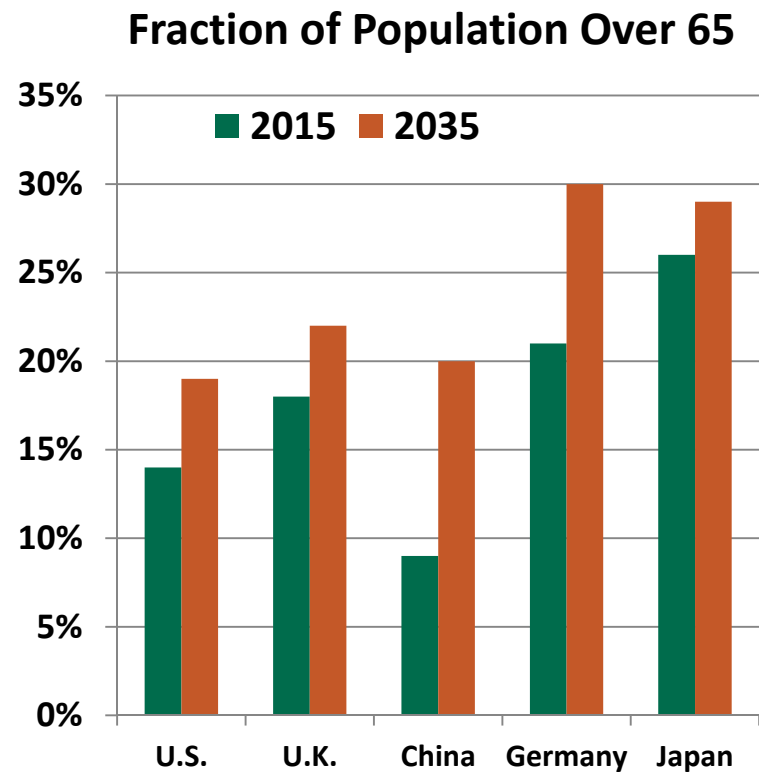
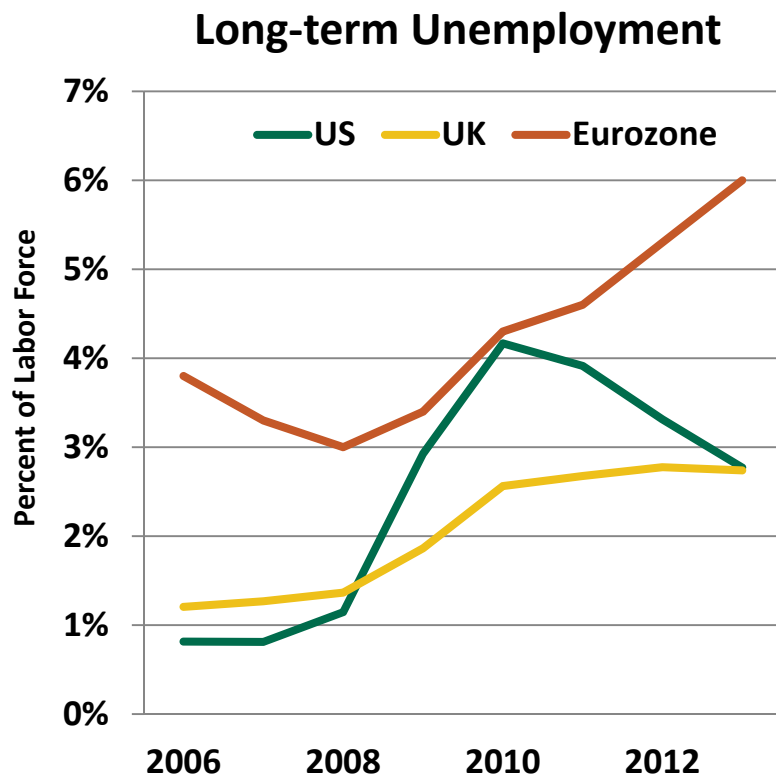


Sources: Haver Analytics, OECD



Structural Changes

- Post-war generation adapts more slowly
- Transition to retirement ahead



Sources: World Bank, ONS, BLS, Eurostat

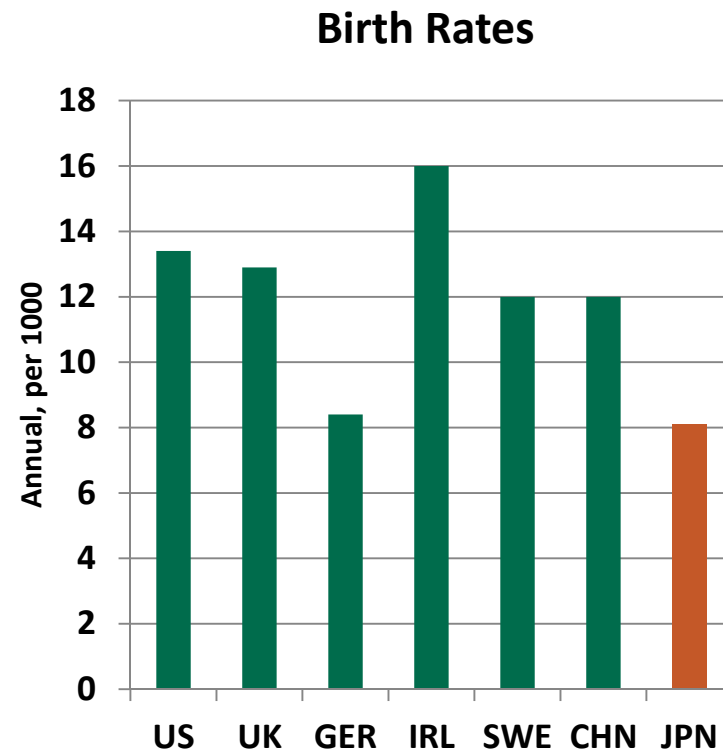
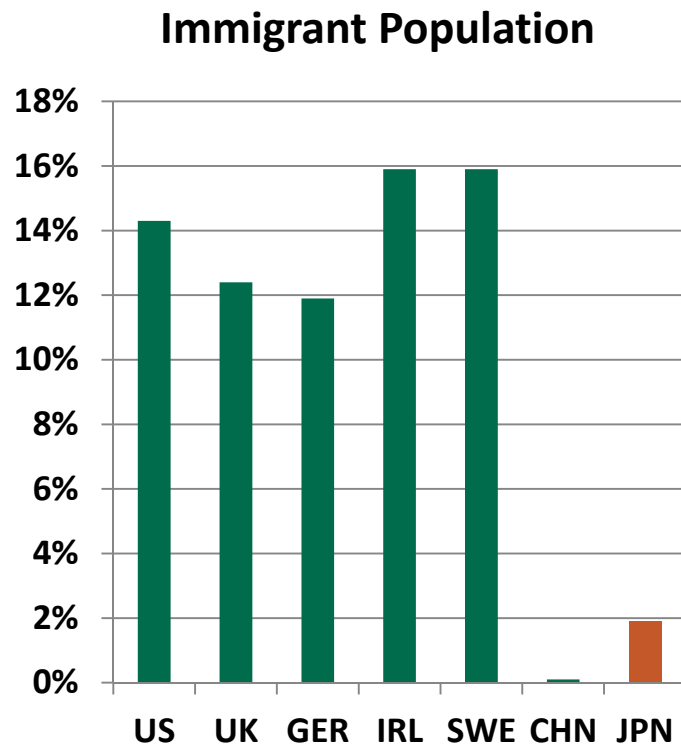


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Demographics Driving Growth

- Countries with low birth rates that are difficult for immigrants struggle to maintain their labor forces



Sources: United Nations, World Bank



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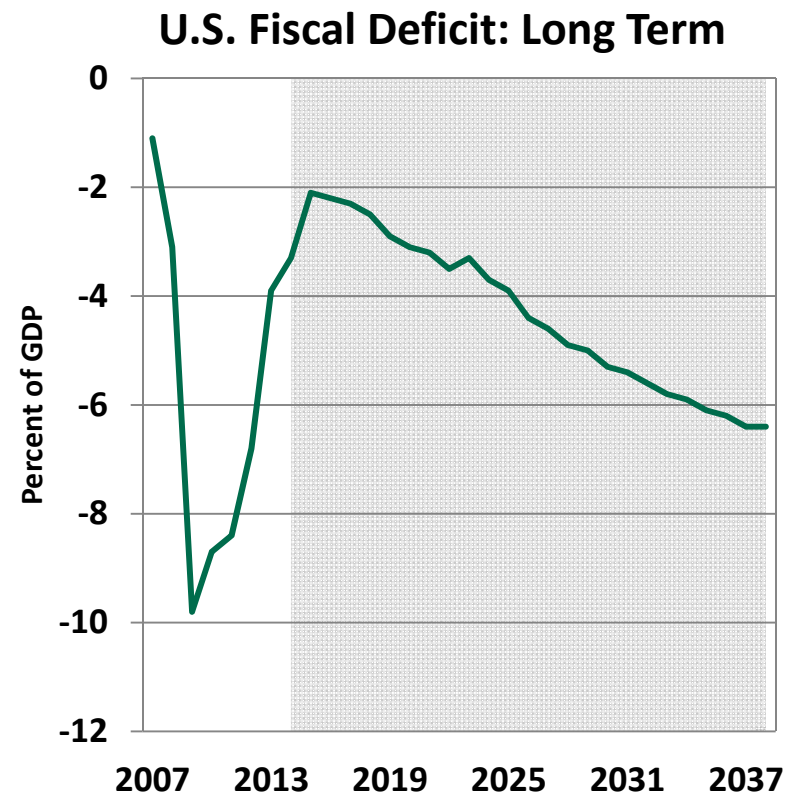
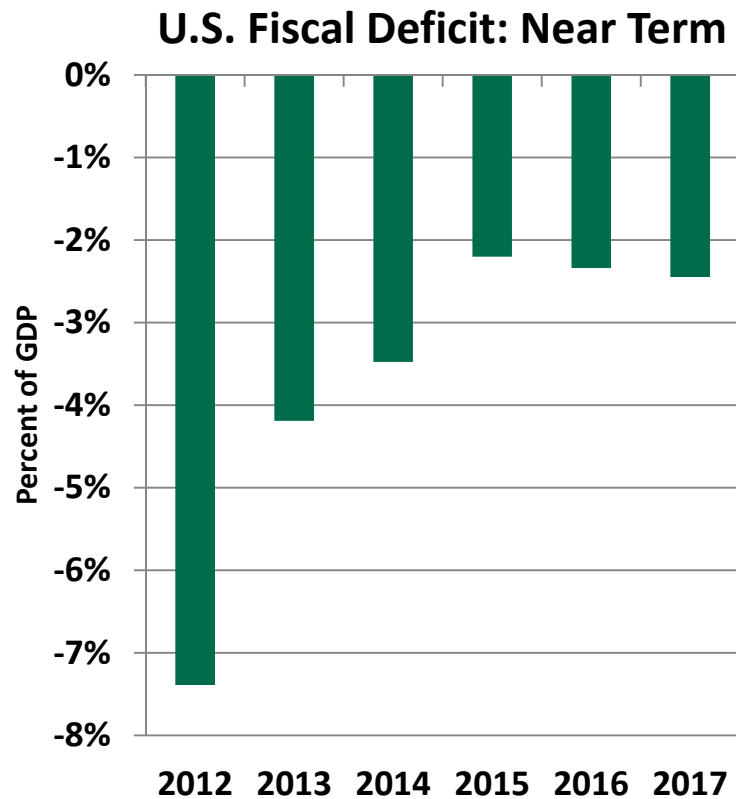


Policy Issues



U.S. Fiscal Consolidation

- Less fiscal drag ahead
- Long-term challenges led by health care



Sources: Congressional Budget Office, BEA

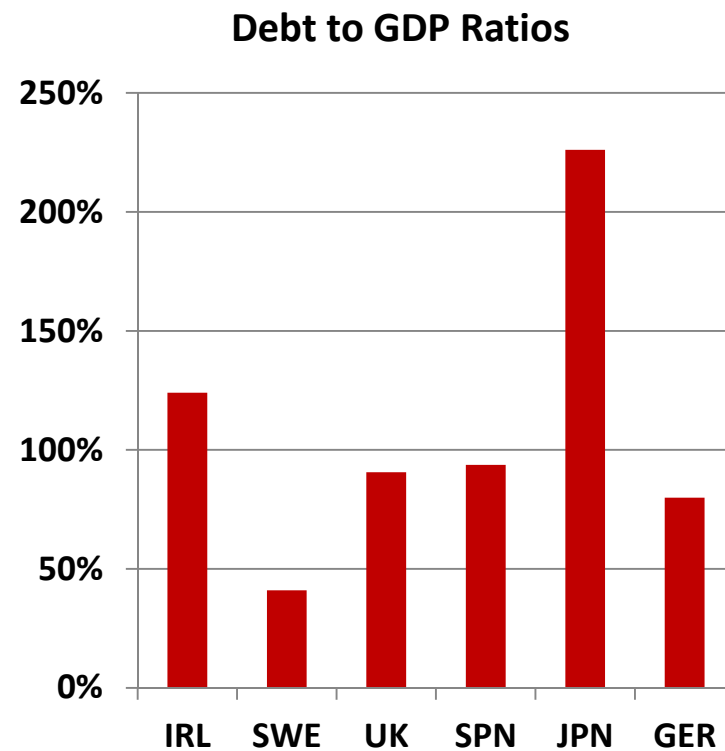
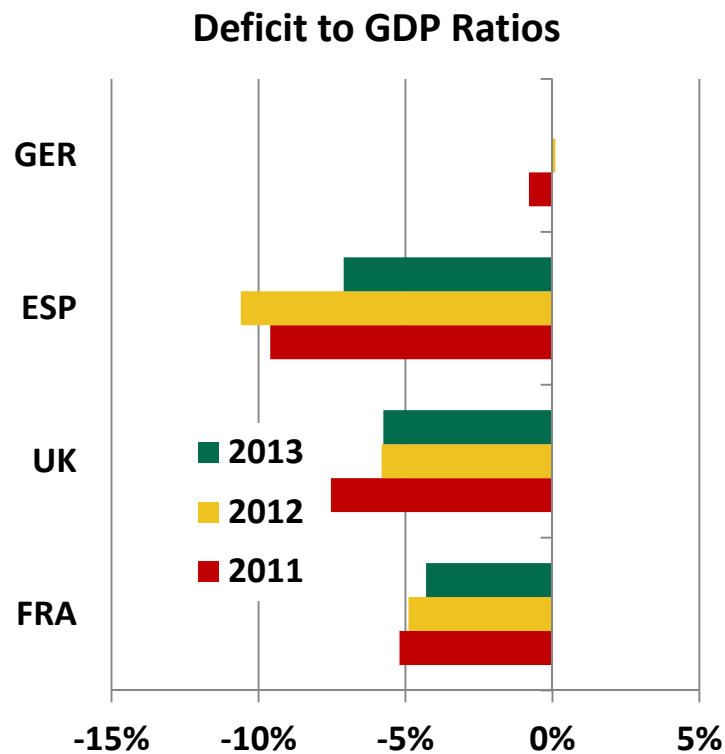


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Fiscal Positions for Selected Economies

- Debt and deficits are still quite high in spots
- Austerity has hampered growth



Source: Bloomberg, Eurostat, Haver Analytics



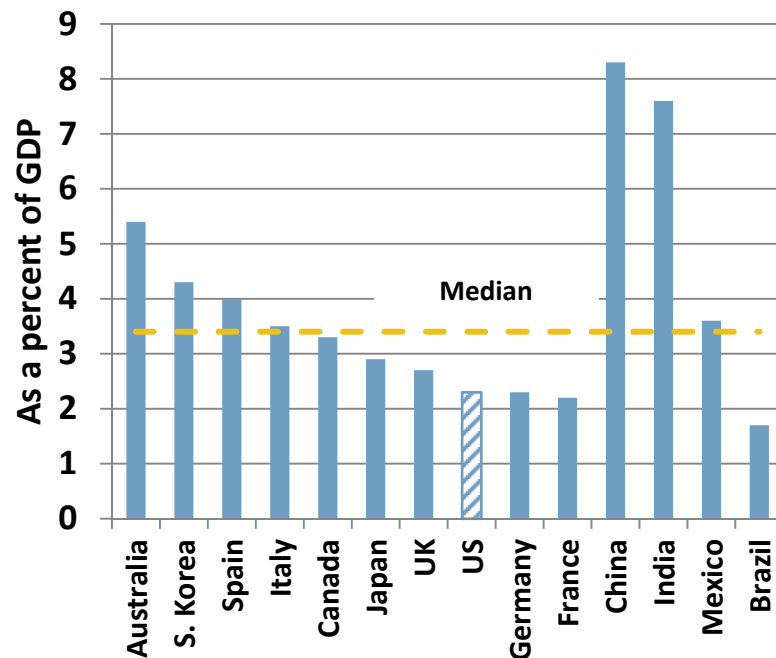
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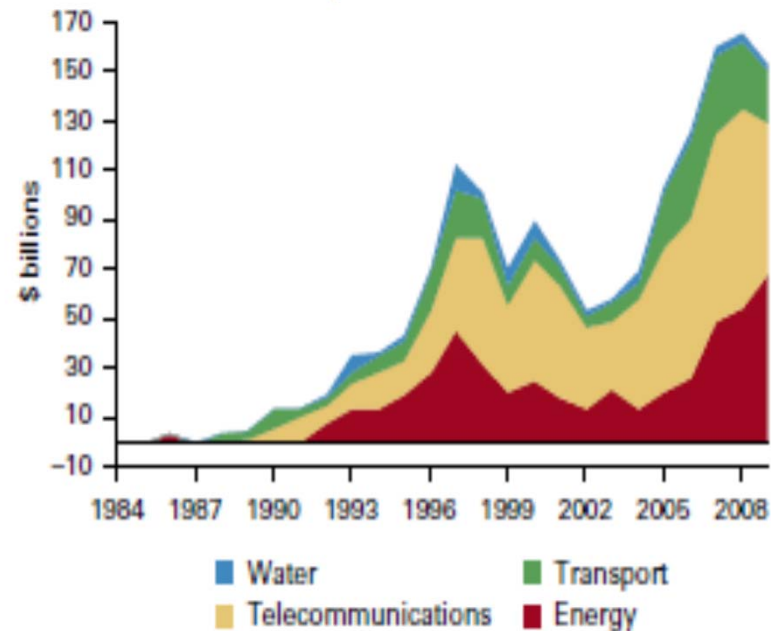
The Importance of Infrastructure

- Underinvestment can be costly in the long run
- Private investment has been stepping up

Infrastructure Spending in Major Economies (2008)



b. Global PPP infrastructure projects, by sector, 1984-2010²



Sources: Milken Institute, World Bank



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Current Monetary Policy Themes

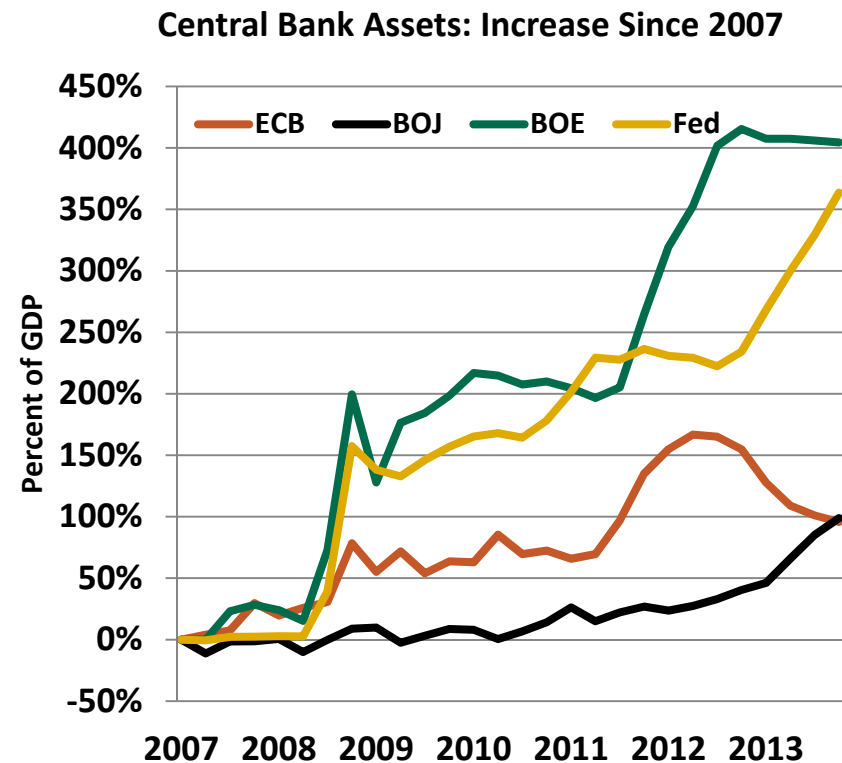
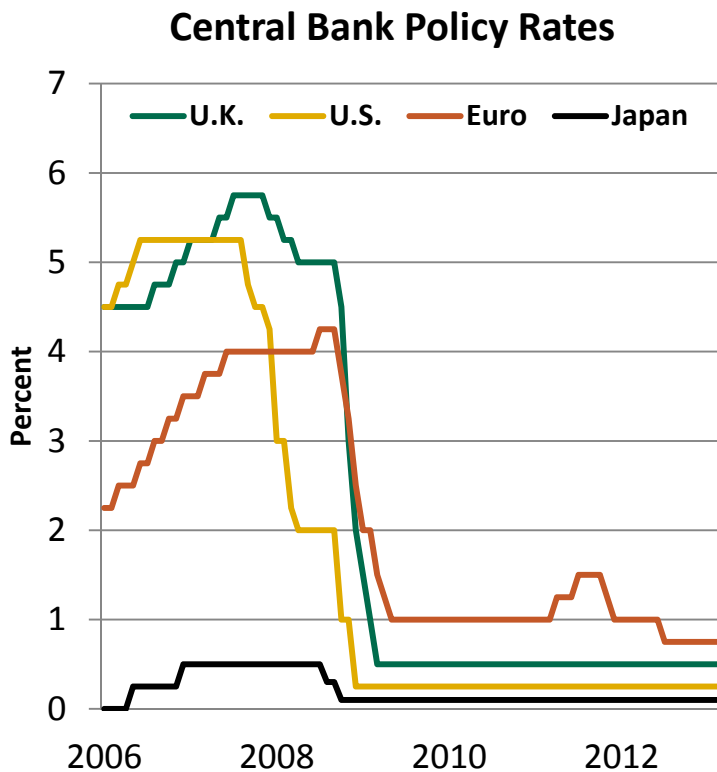
- **U.S., U.K.: Timing the transition from tapering to tightening**
 - The exit strategy must be handled carefully
- **Is inflation a problem?**
 - The theory of “secular stagnation”
- **Addressing asset prices**
 - Should central banks burst bubbles, and how?





The Course of Central Banking

- Cheap liquidity to promote growth
- Different markets in different phases



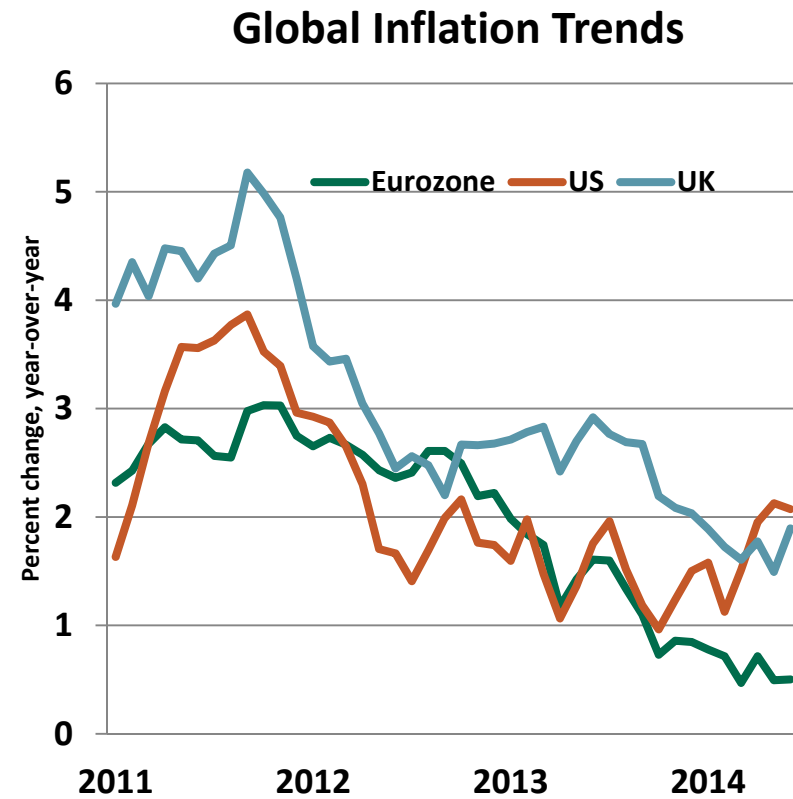
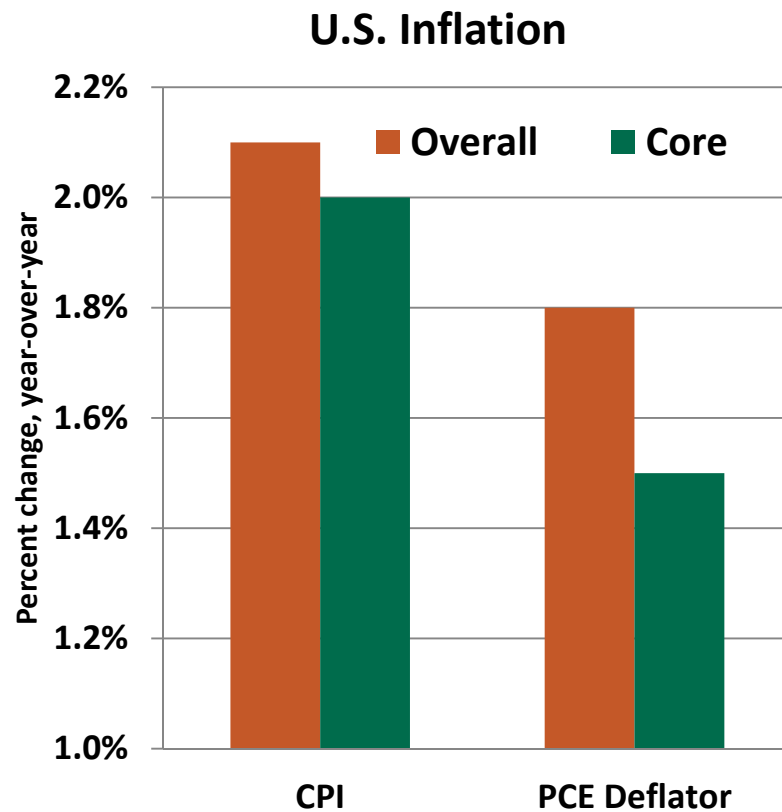
Sources: Federal Reserve, ECB, BOJ, BOE, Bloomberg, Haver Analytics





Inflation Issues

- Moving back towards target levels
- Global capacity exerts downward pressure



Sources: Bloomberg, Haver Analytics

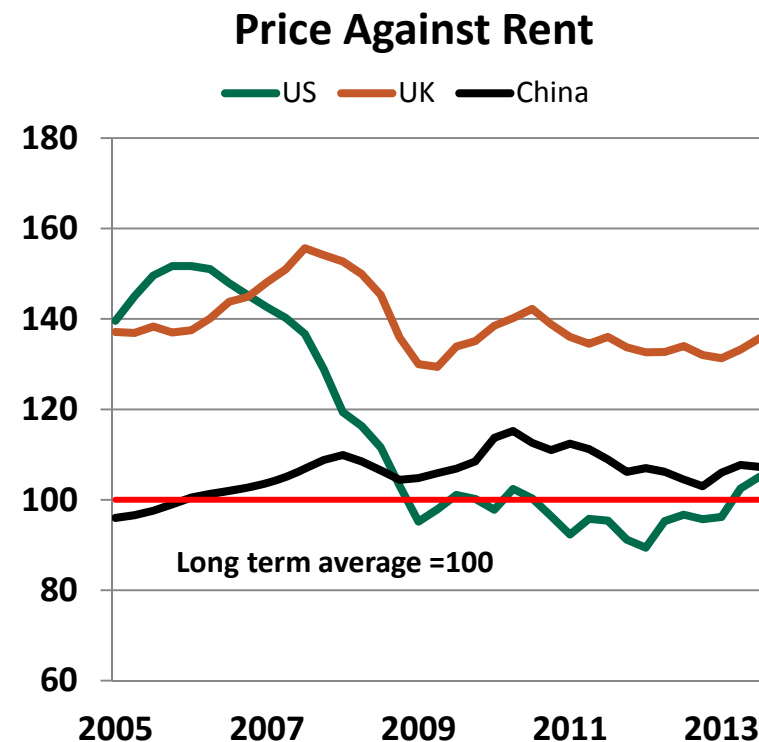
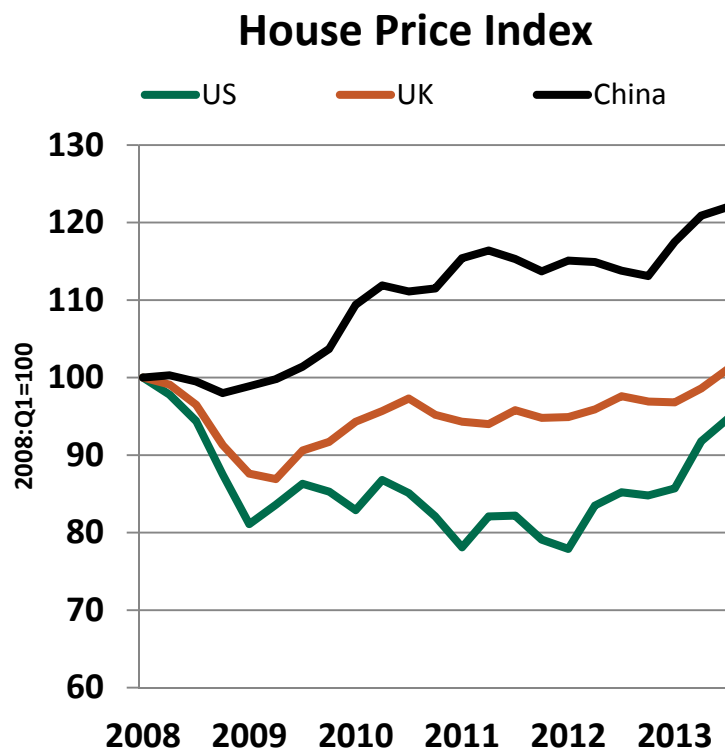


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Is Housing Back in a Bad Neighborhood?

- Responding to low interest rates
- A problem for financial stability?



Source: *The Economist*



Parting Thoughts

- **The global outlook remains positive**
 - Forward readings are encouraging
- **Performance will continue to be somewhat uneven**
 - Some regions and sectors are further along
- **Risks to the outlook are varied**
 - Geopolitics tops the list
- **For all of today's challenges, we've come a long way**





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