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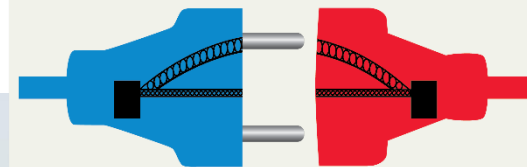


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# World Economy Heading for Another Period of Weakness



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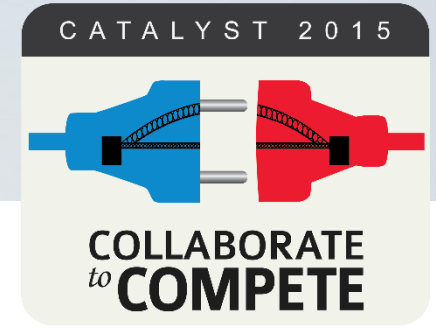
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*Presented by*

**Dr. Howard Nicholas**

Senior Lecturer in Economics,  
Erasmus University  
Rotterdam,  
The Netherlands

# Understanding the current state of the world economy



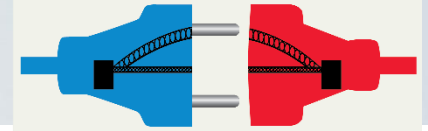
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- Shift in **global economic power** from advanced to developing countries, particularly East and South Asian.
- **Business cycles.**

# GLOBAL SHIFT IN POWER

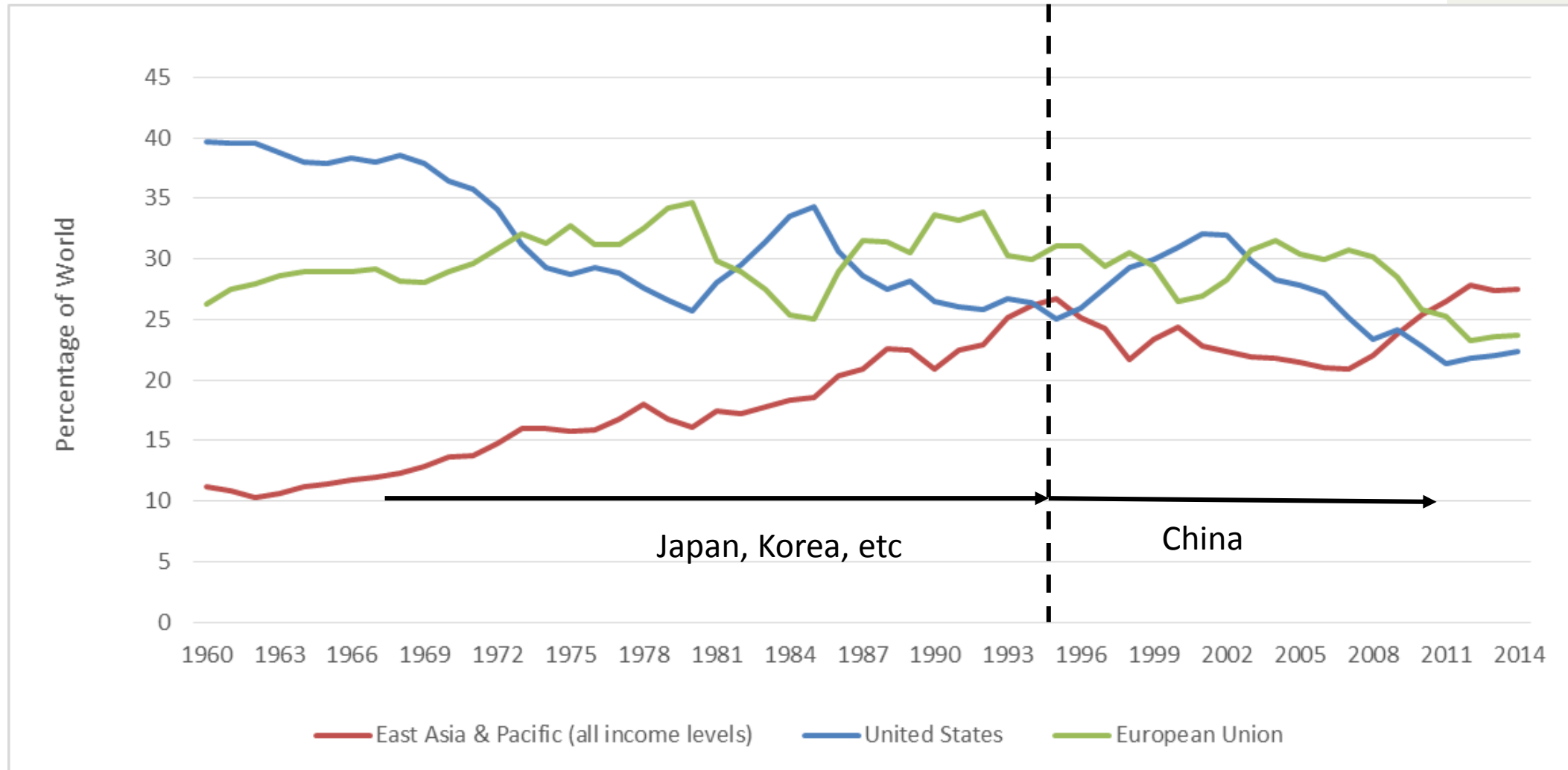
# Regional shift in world GDP shares, 1961-2013

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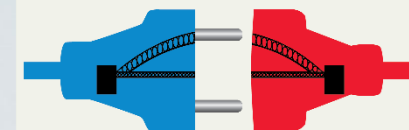


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Source: World Bank, calculated and chart by author

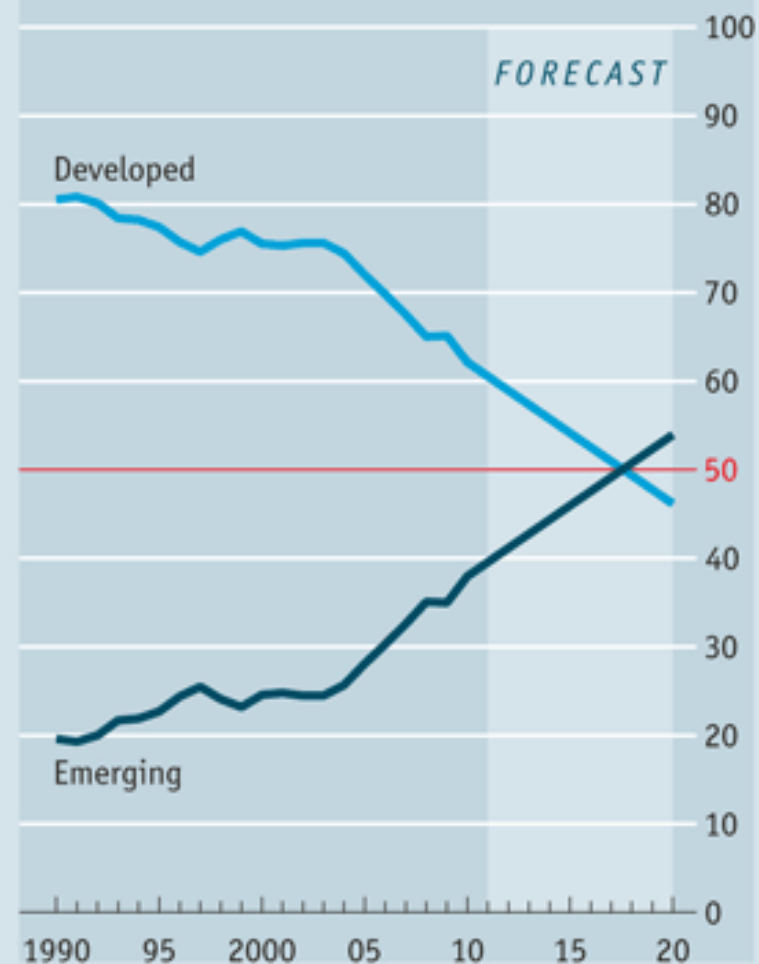


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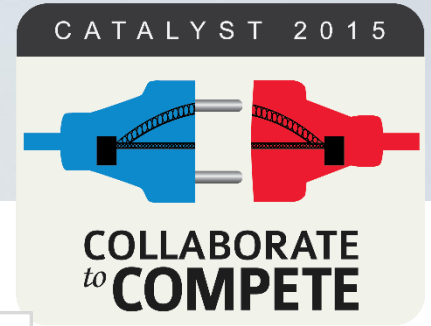
## Global balance

Economies' share of world GDP, %  
At market exchange rates

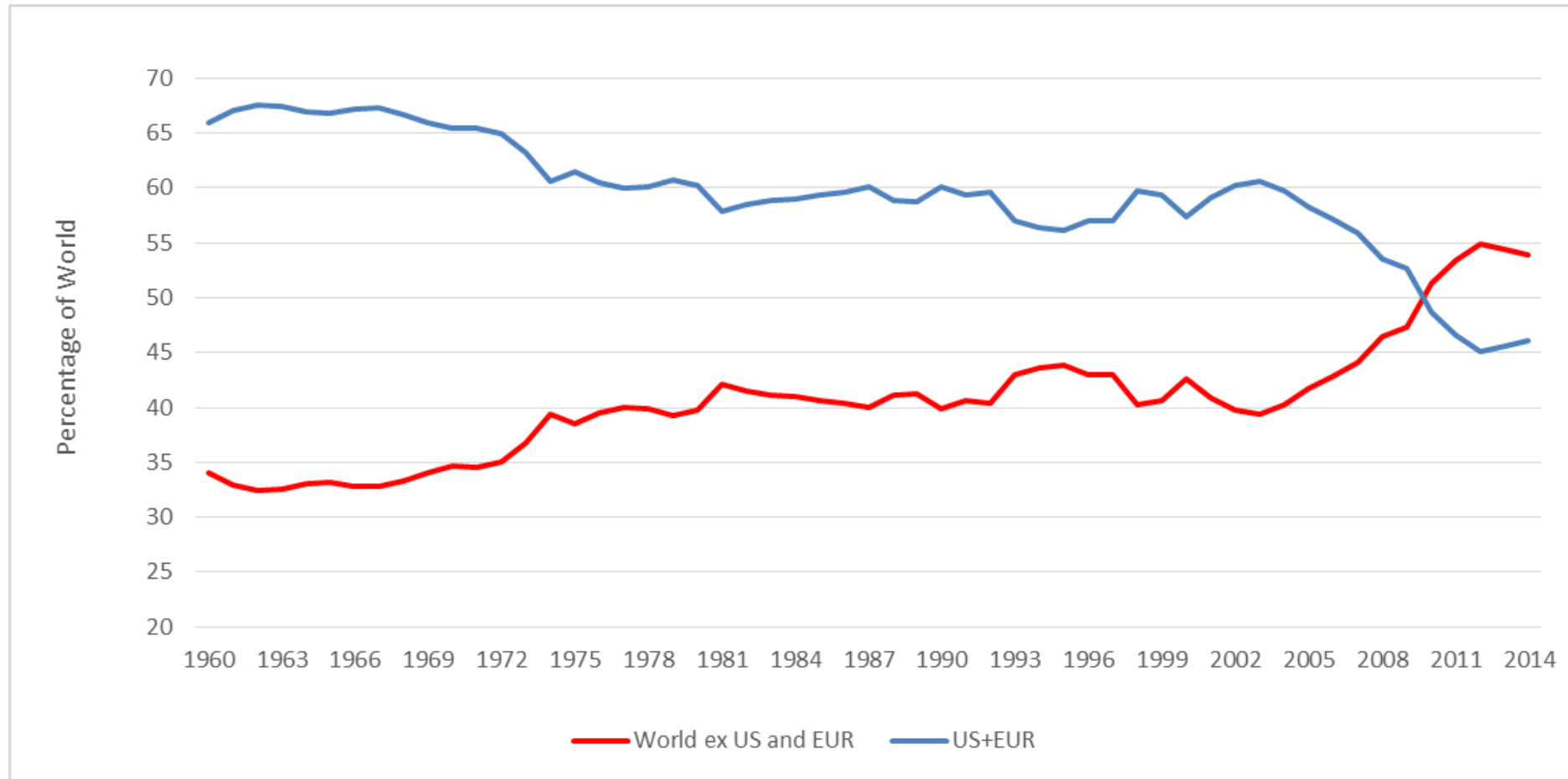


Sources: AT Kearney; Bloomberg; BP; dotMobi; Fortune;  
IMF; UBS; UN; World Bank; World Steel Association; WTO

# Shift in world GDP share away from the US and Europe, 1961-2013

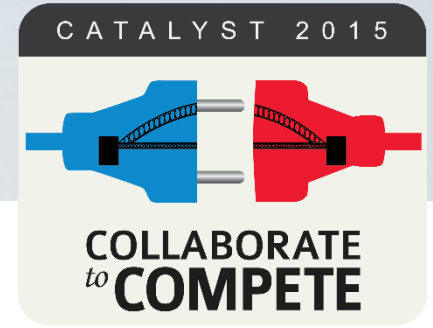


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Source: World Bank, calculated and chart by author

# Shift in Shares of World GDP for China, India and Sri Lanka, 1980-2014

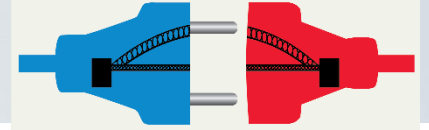


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	1980	2014
China	2.3%	16.3%
India	3.0%	6.8%
Sri Lanka	0.12%	0.20%

Source: World Bank, calculated and table by author

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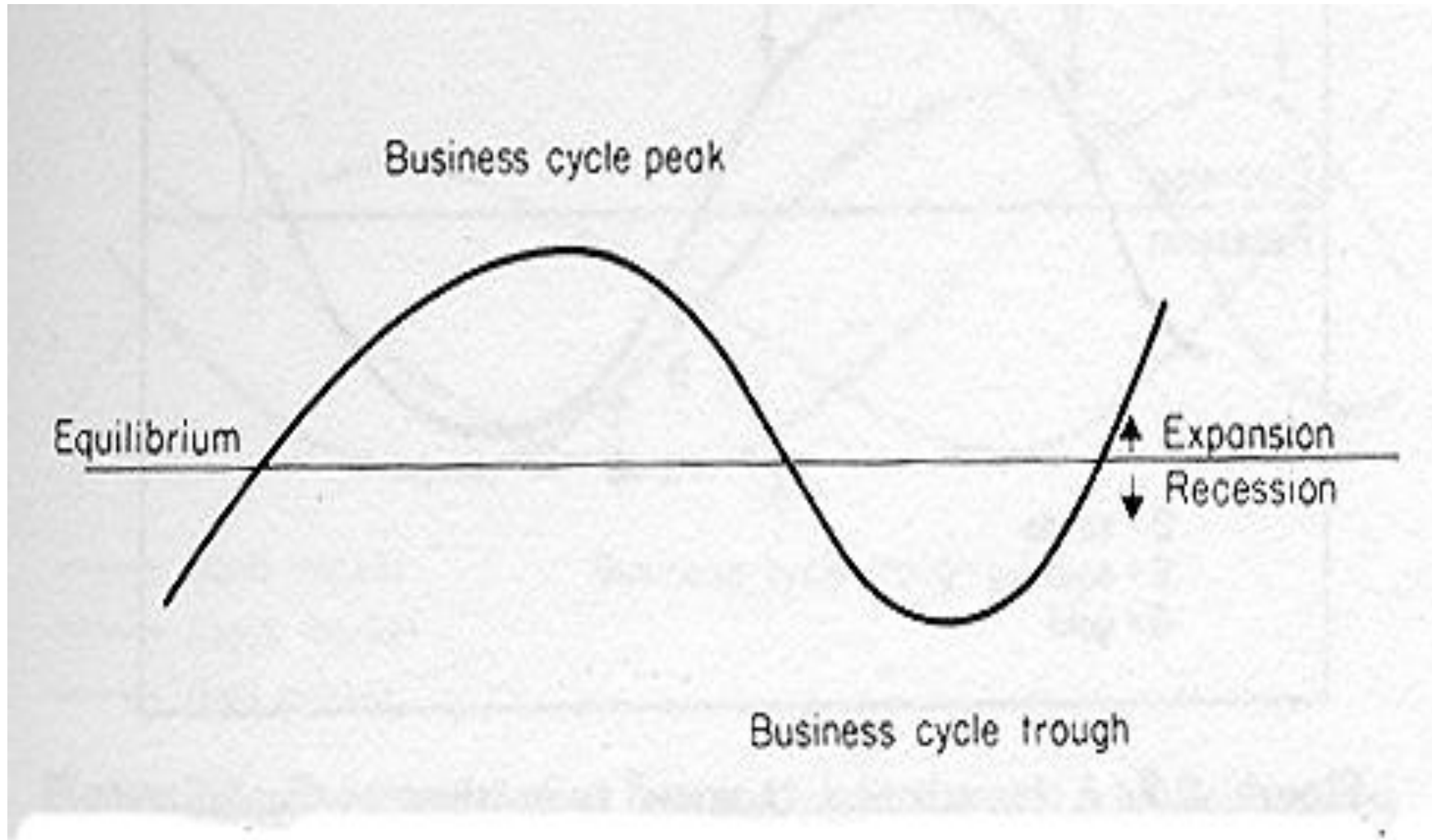
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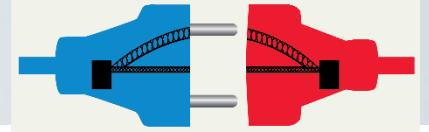
# CYCLES IN THE WORLD ECONOMY



# A typical cycle



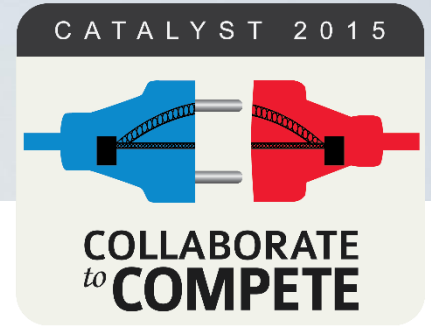
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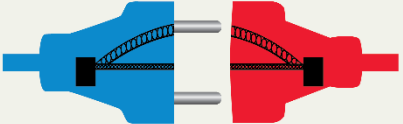
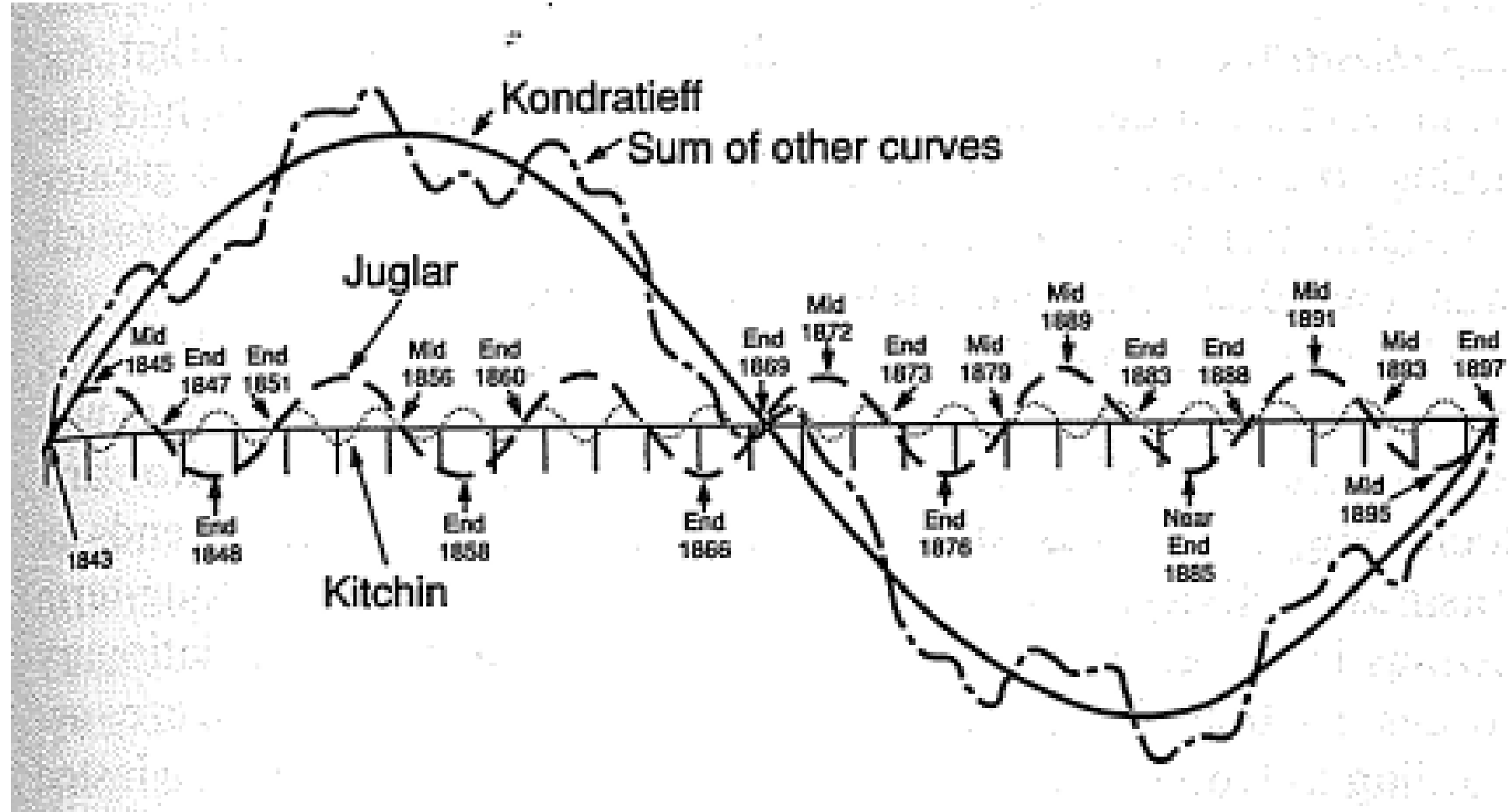
# Types of cycles



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Cycle	Duration	Source
K-Wave	50-60 yrs	Major innovations
Juglar	7-11 yrs	Fixed capital investments

# Combining waves

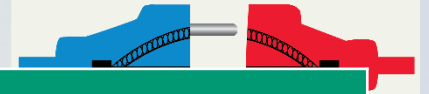


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# Long cycle dating

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Trough	Peak	Trough	Duration	Hegemonic Power	Technology
1790	1814	1848	58	Britain	Canals
1848	1872	1893	45	Britain	Railways, Steam (steam engine)
1893	1917	1940	47	Britain	Steel, Combustion engine, Electricity, Chemicals, Telephone
1940	1975	2009	60	United States	Electronics, Plastics, Aerospace, Nuclear energy
2009	2030	2050	50	China/E.Asia	Computers, Biotechnology, Robotics

Source: Goldstein (1988) modified.

# Juglar dating – cycle bottoms



**1958**

**1970**

**1975 (oil shock)**

**1980**

**1991**

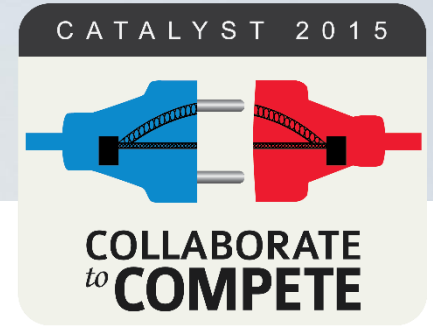
**2001**

**2009**

**2016 (my estimate)**

Source: NBER

# Economic growth and inflation slowing between recent short cycles



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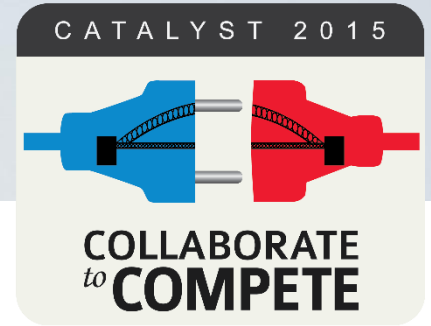
	2003-7	2010-14
<b>Growth</b>		
<i>Advanced economies</i>	3.3	2.5
<i>BRICs</i>	8.3	6.2
<b>Inflation</b>		
<i>Advanced economies</i>	2.3	1.5
<i>BRICs</i>	5.3	4.9

Source: World Bank, calculated and table by author

# FUTURE PROSPECTS

## Short-run (next couple of years)

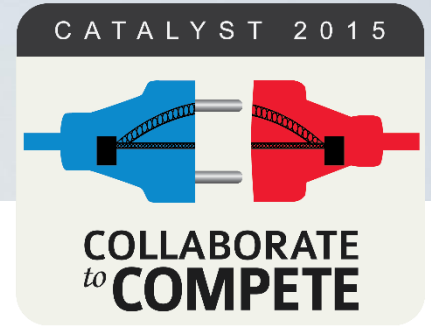
- US and Europe will follow E. Asian countries into **recession in 2016**, but not necessarily a major fall in stock markets.
- More **quantitative easing** in US, Europe, Japan and China.(1)
- **Fiscal stimulus** in China and advanced countries.



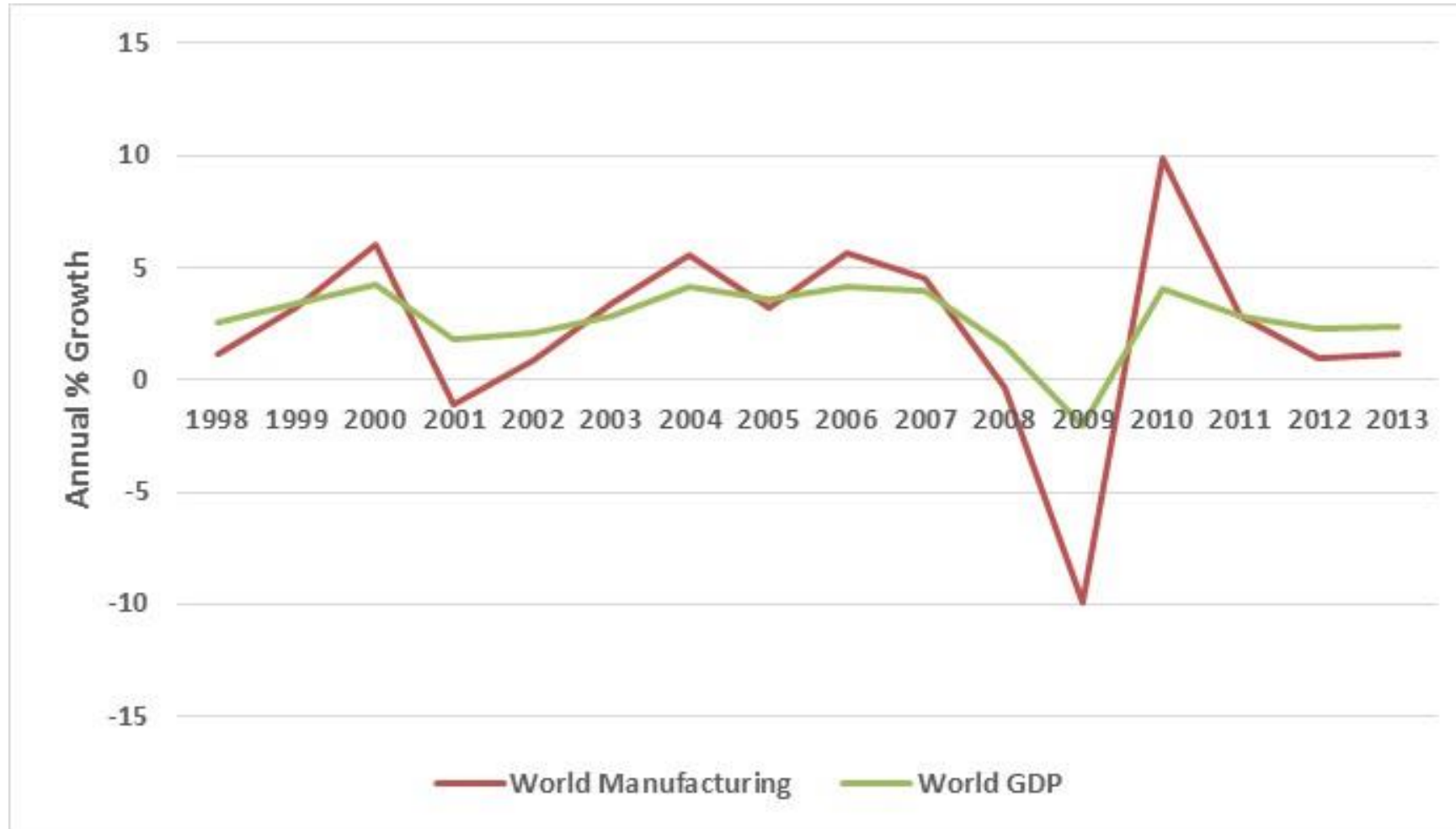
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# Manufacturing driving world GDP

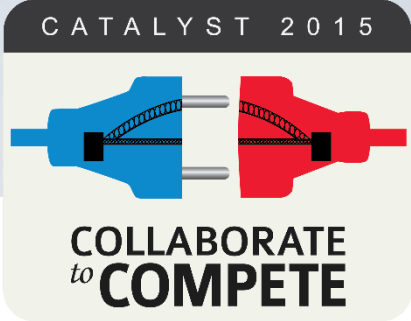


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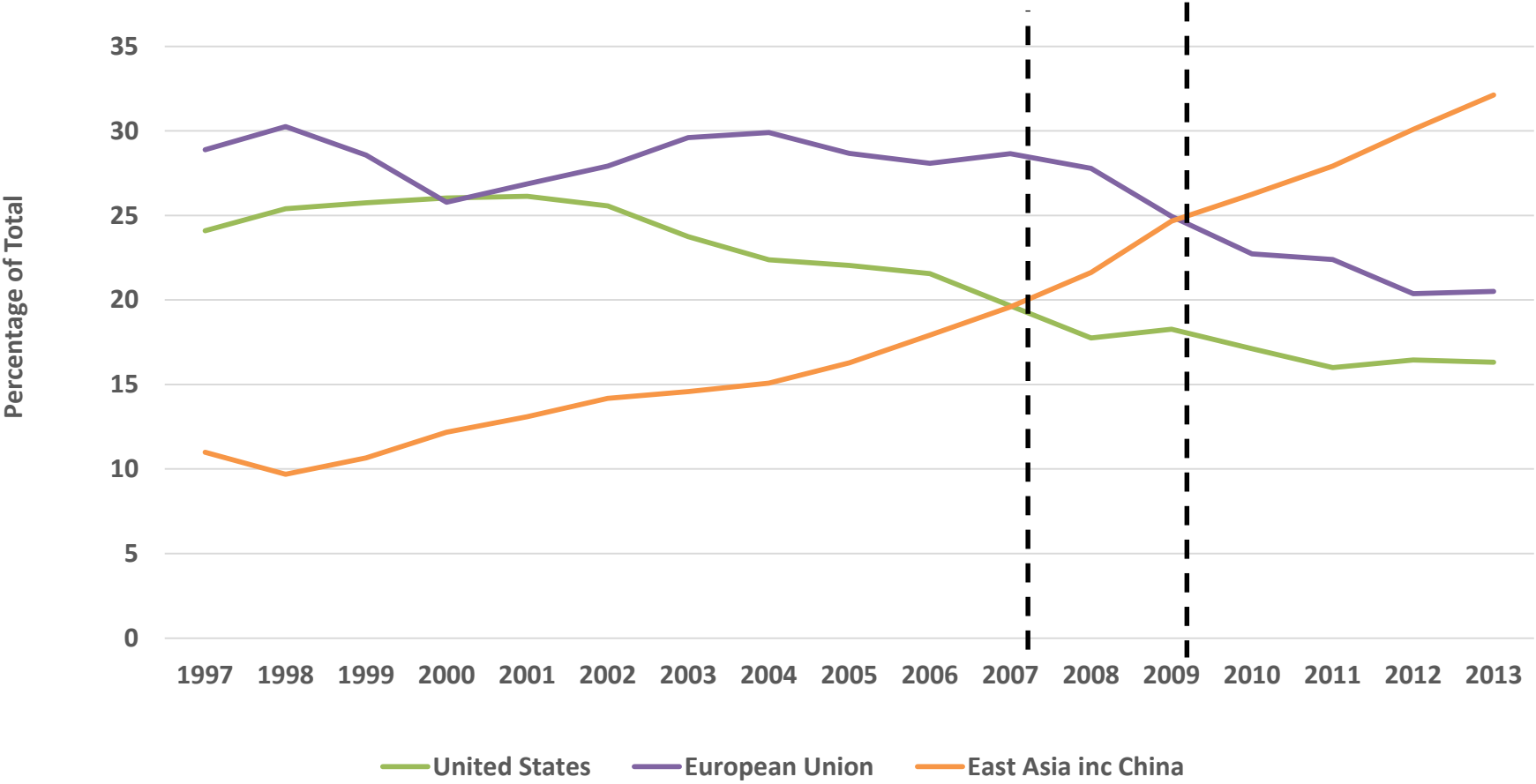


Source: World Bank, chart by author

# Shares of world manufacturing; US, EU and E. Asia, 1997-2014

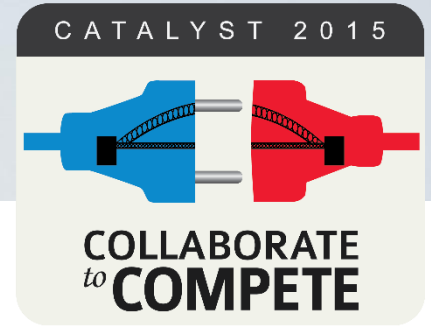


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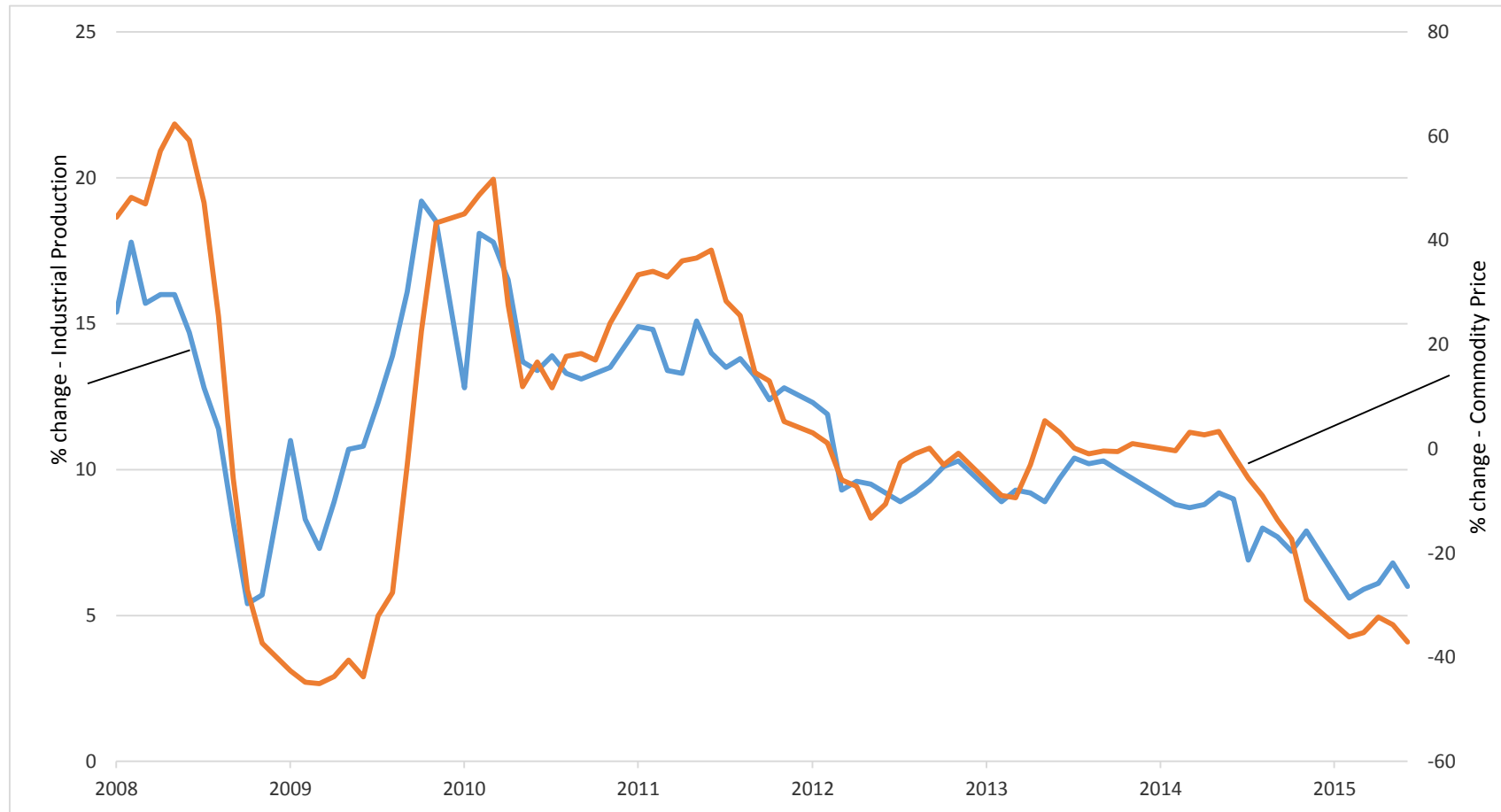


Source: World Bank, calculation and chart by author

# Growth of Chinese industrial production and primary commodity prices, 2008-2015



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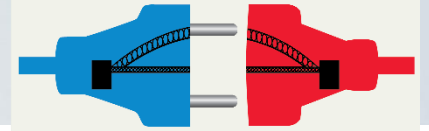


Source: IMF, National Bureau of Statistics of China, calculation and chart by author

# Emerging markets falling fast



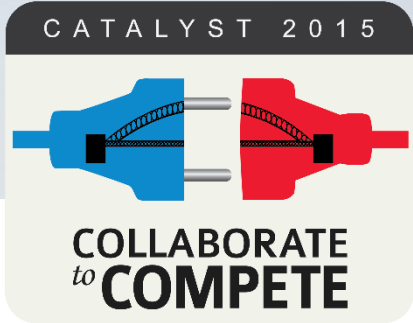
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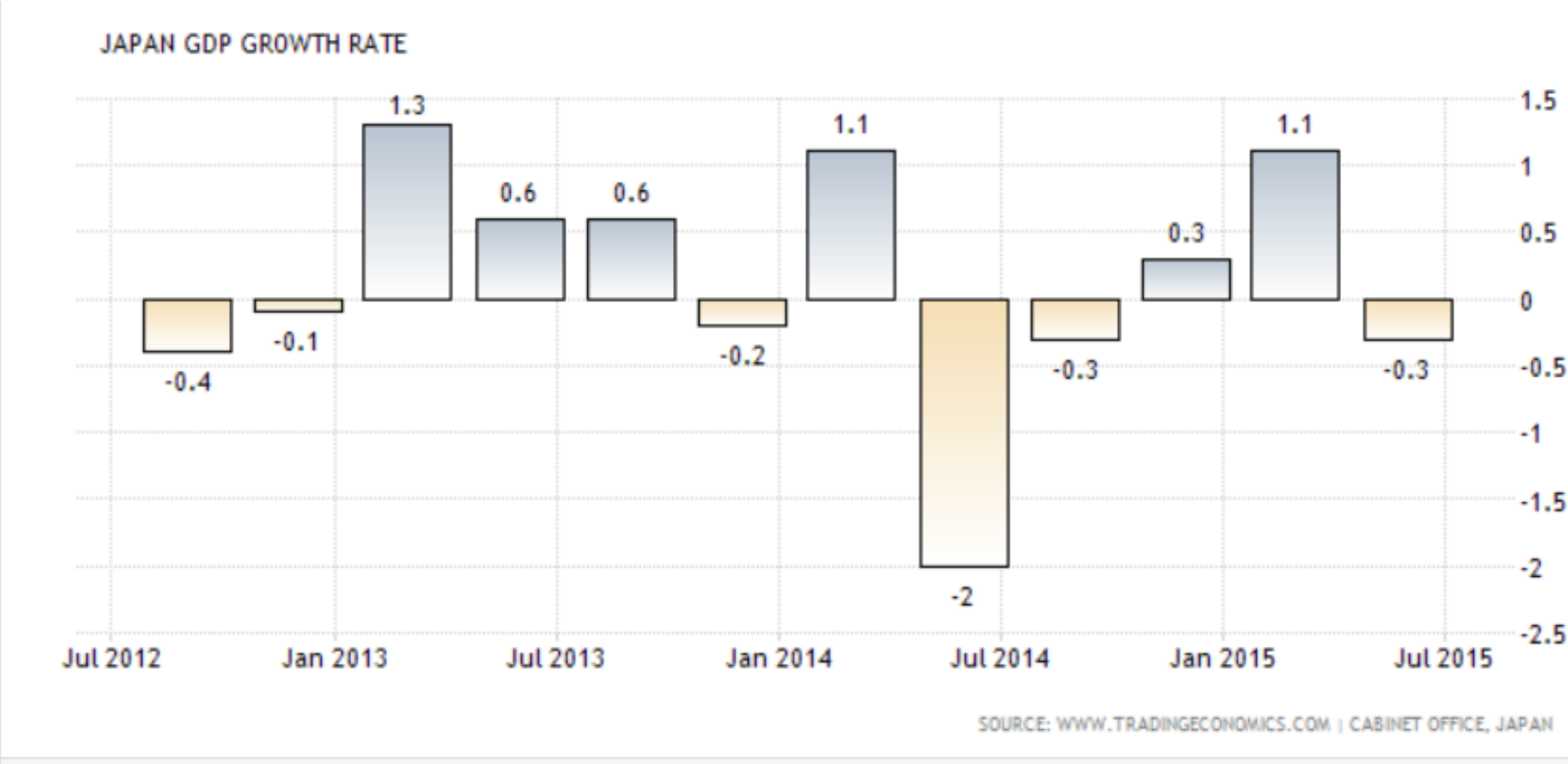
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# Japan weakening

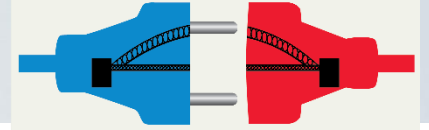


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# Europe recovering?

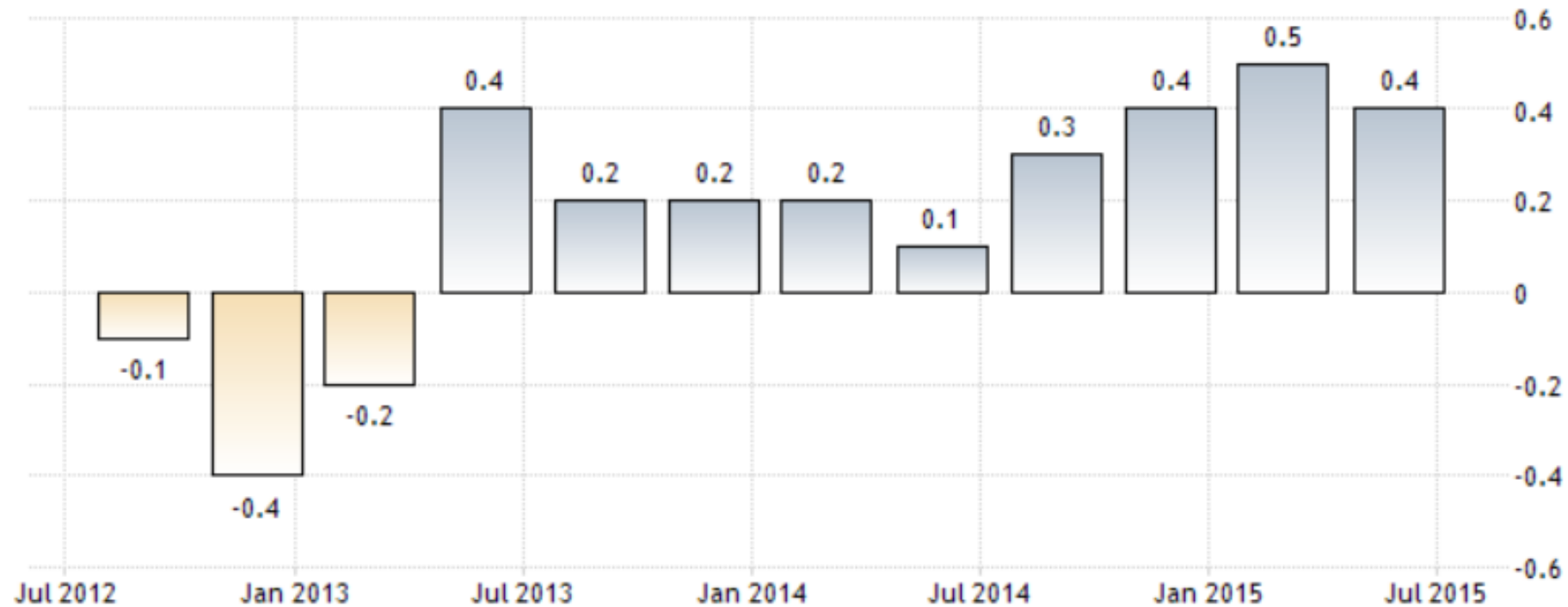
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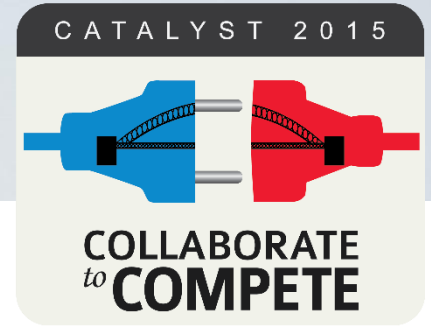
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EU GDP GROWTH RATE



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

# The German export engine is losing steam

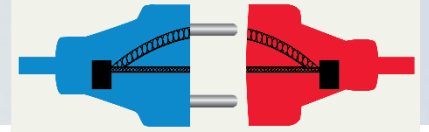


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# US economy weathering the storm?

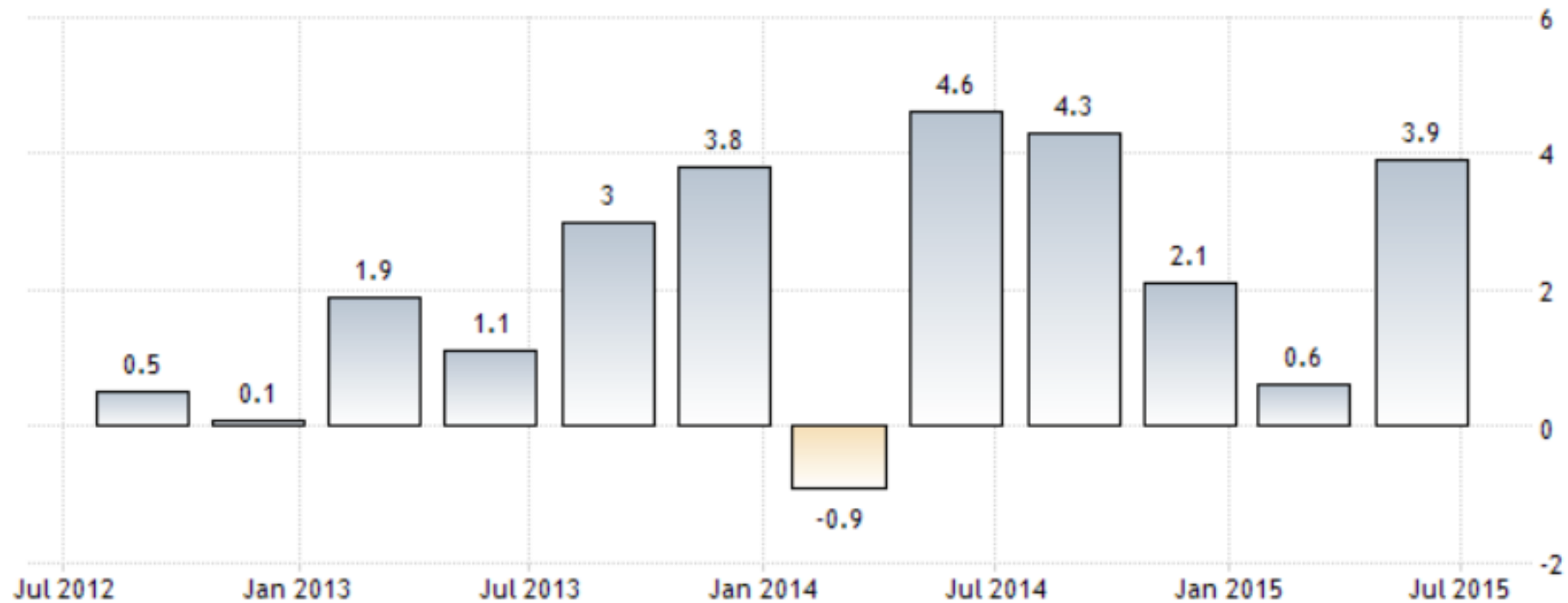
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US GDP GROWTH RATE

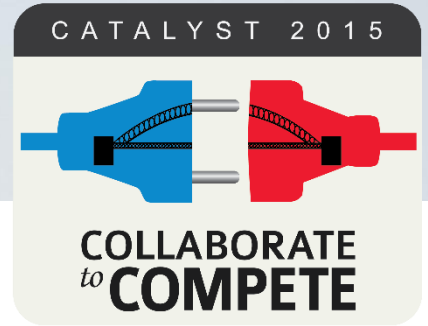
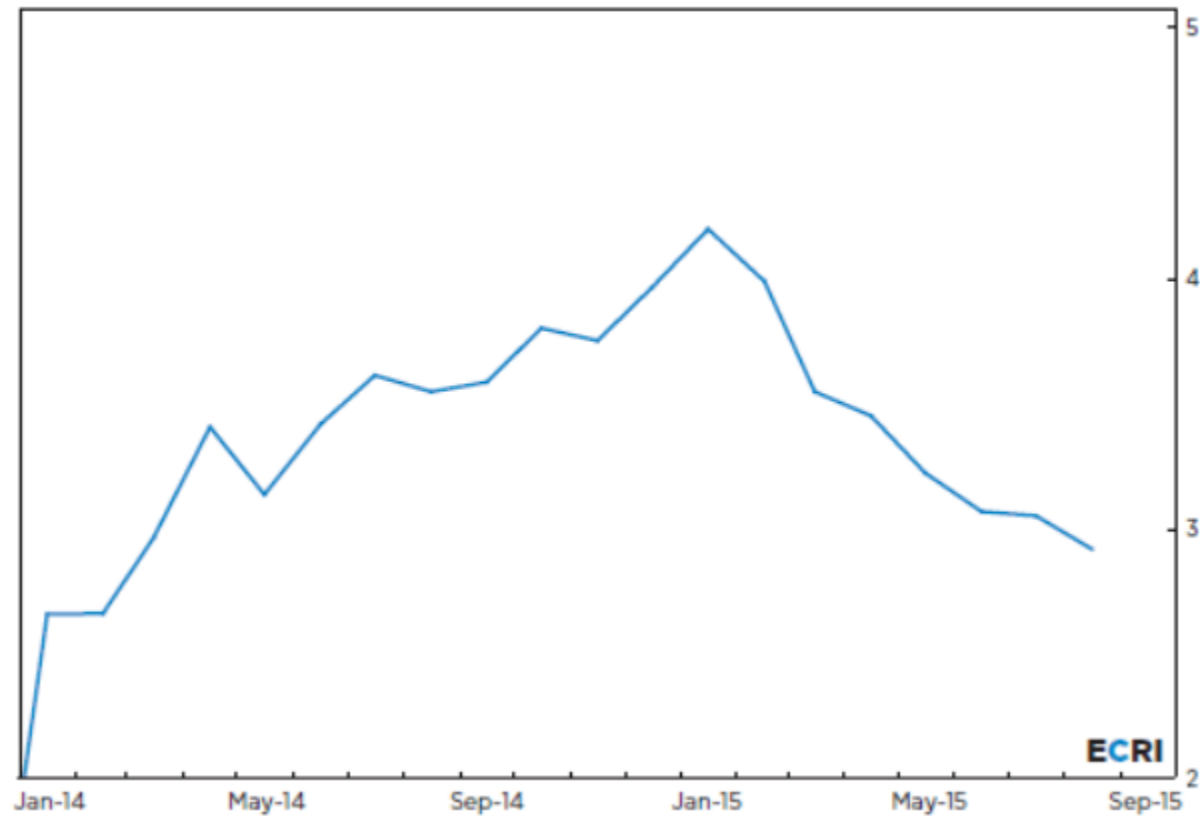


SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS



# Coincident index suggesting increasing weakness

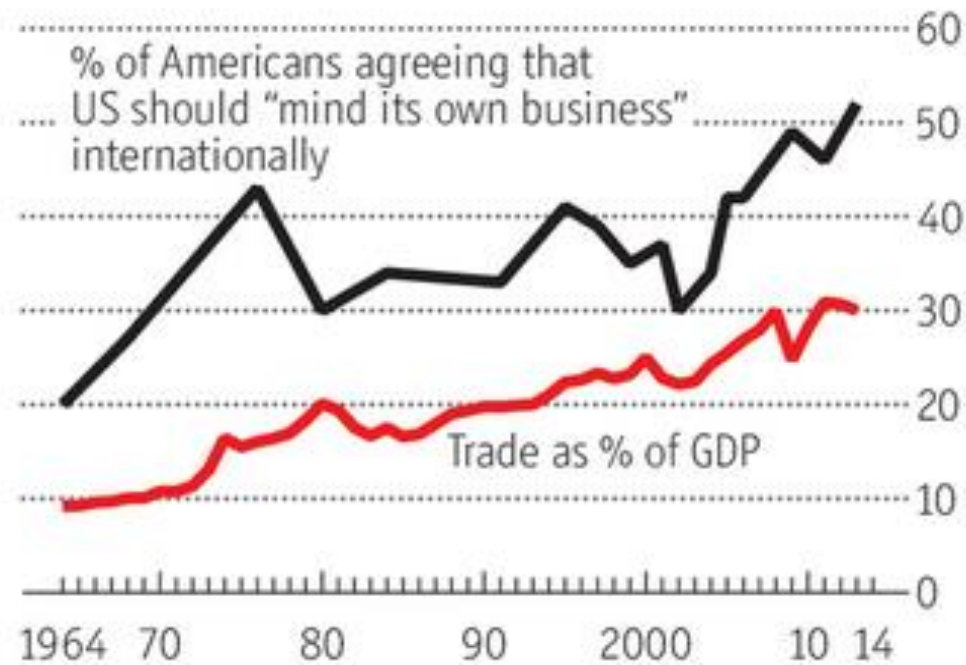
U.S. Coincident Index, YOY Growth (%)



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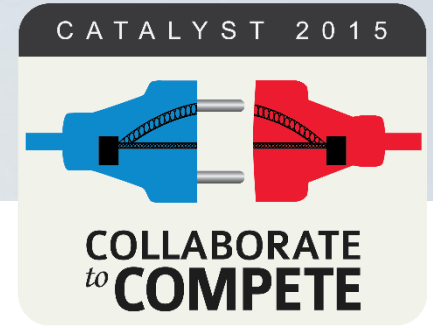
# US becoming increasingly dependent on trade

## Stop the world, we want to get off United States



Sources: Pew Research Centre; World Bank

# Long-run (upswing of the long business cycle)

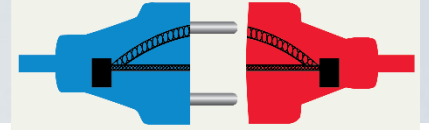


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- A gradual rise in trend world growth as the long business cycle turns up.
- Continuing **shift of wealth and power** to the developing countries.
- Many more developing countries will **shift towards manufacturing production**.
  - *The successful ones will **attract manufacturing production** seeking to relocate from China and other high-cost East Asian producers.*
- Some recovery in primary commodity prices.
- A rise in **wage levels** beginning with those in more advanced economies.
- **Misguided monetary stimulus policies** of the advanced countries could considerably delay the up-turn of the long business cycle.

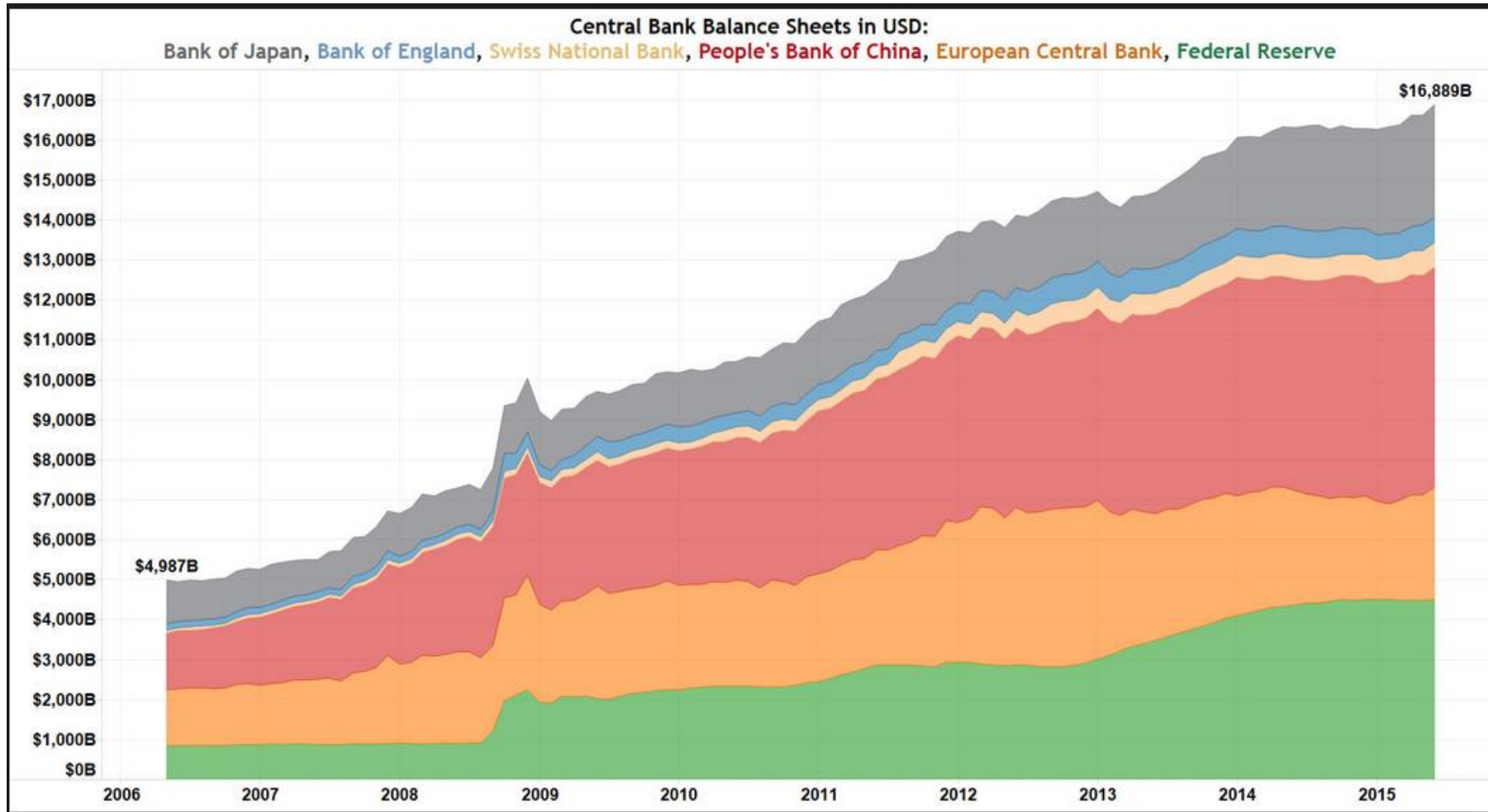
# Printing by central banks

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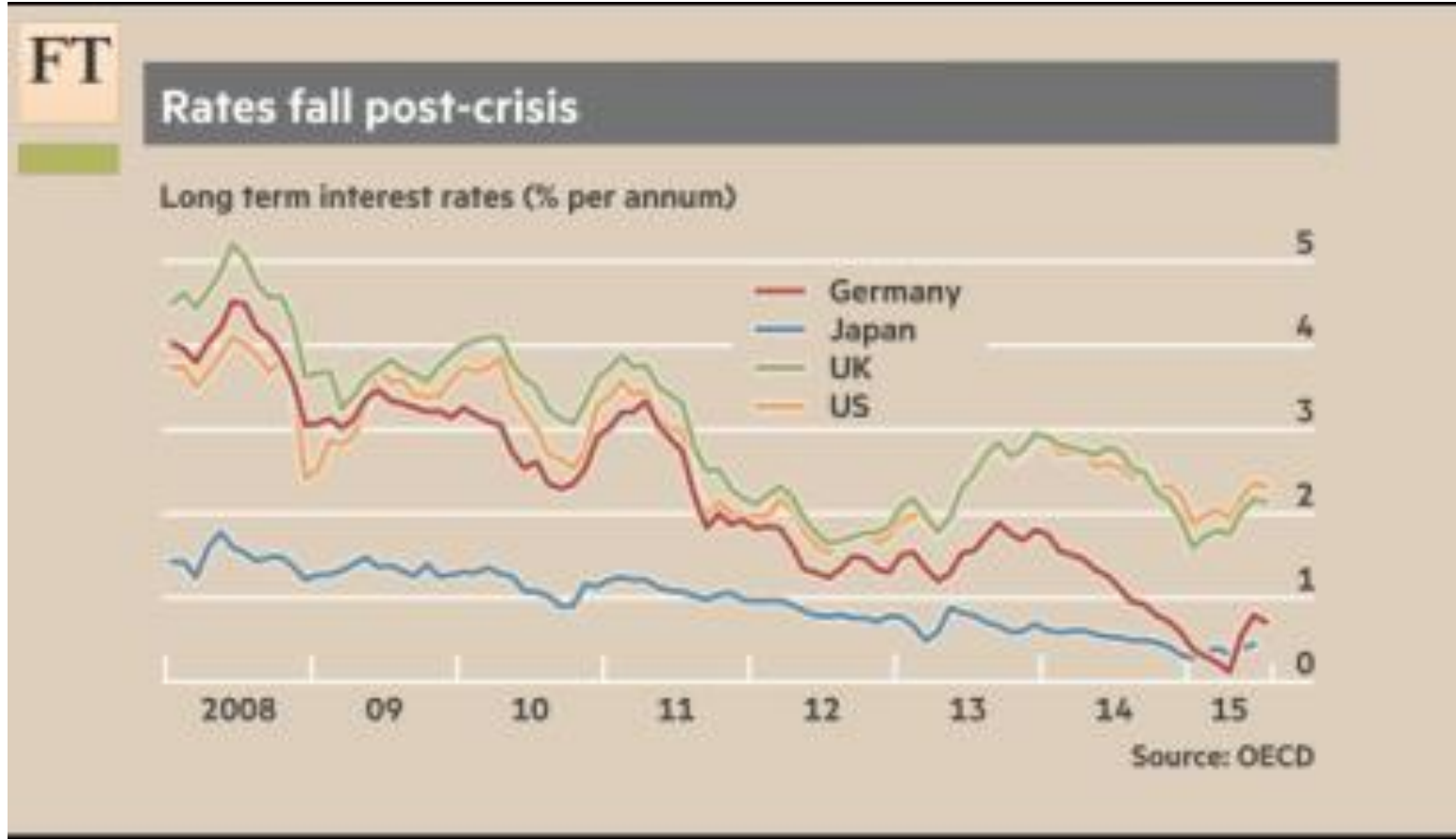


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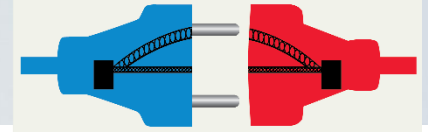
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# Falling long-term (10 year) interest rates, Germany, Japan, UK and US



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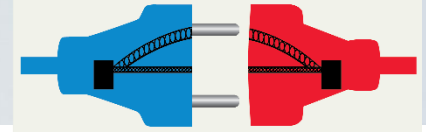


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# Historically low long-term interest rates

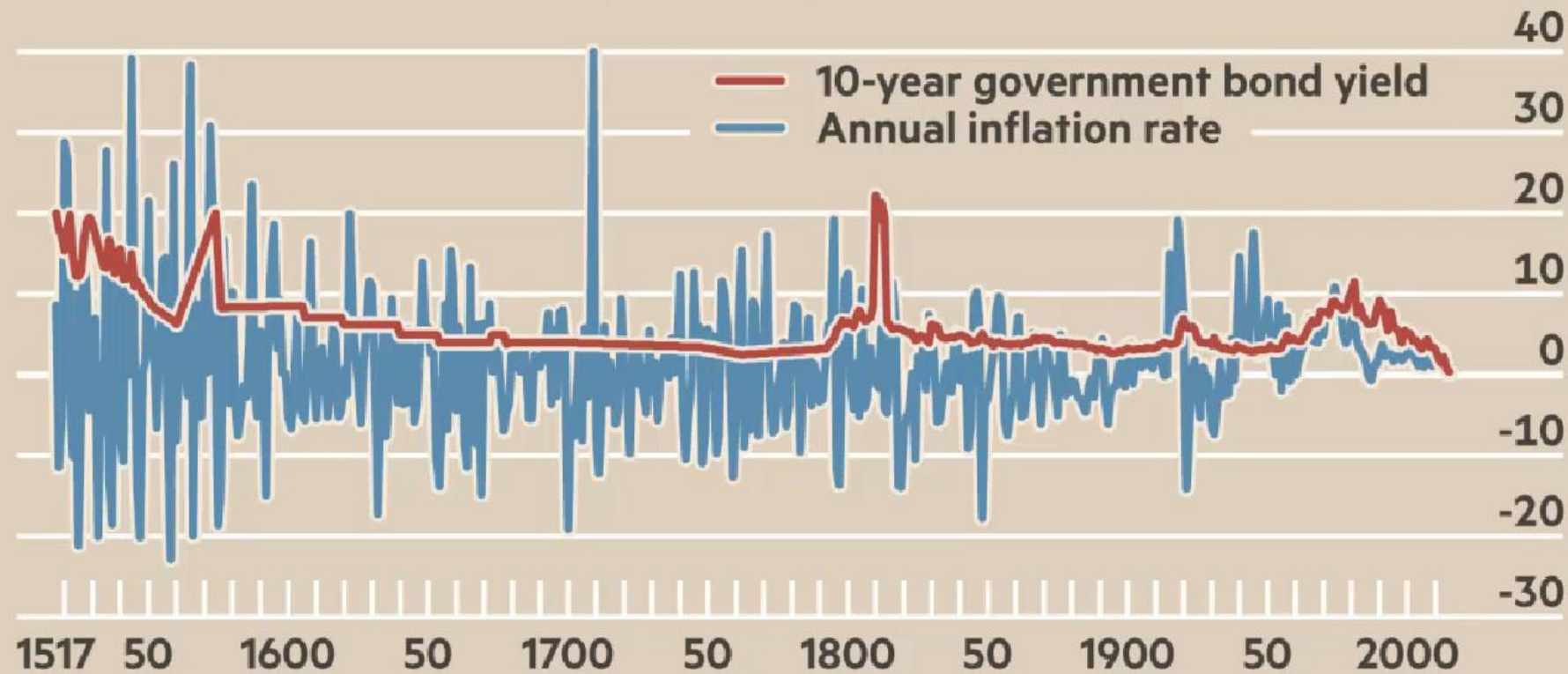
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Netherlands inflation and 10-year bond yield



Source: Global Financial Data

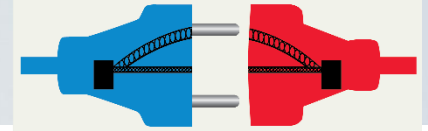


# ...and short-term interest rates



Economist.com

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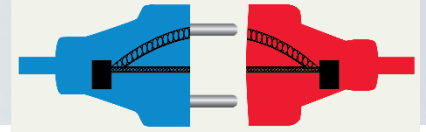


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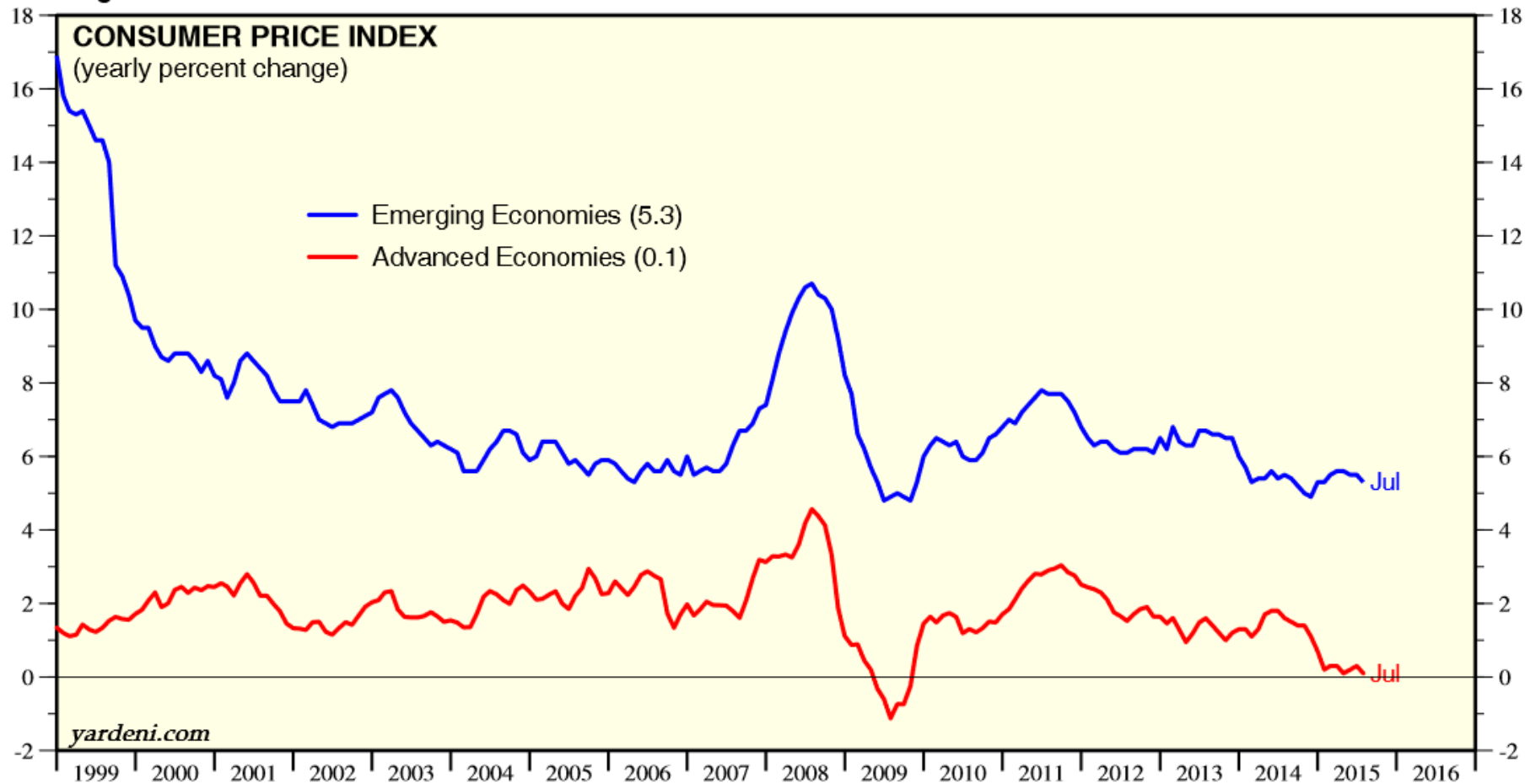
# What did QE achieve?

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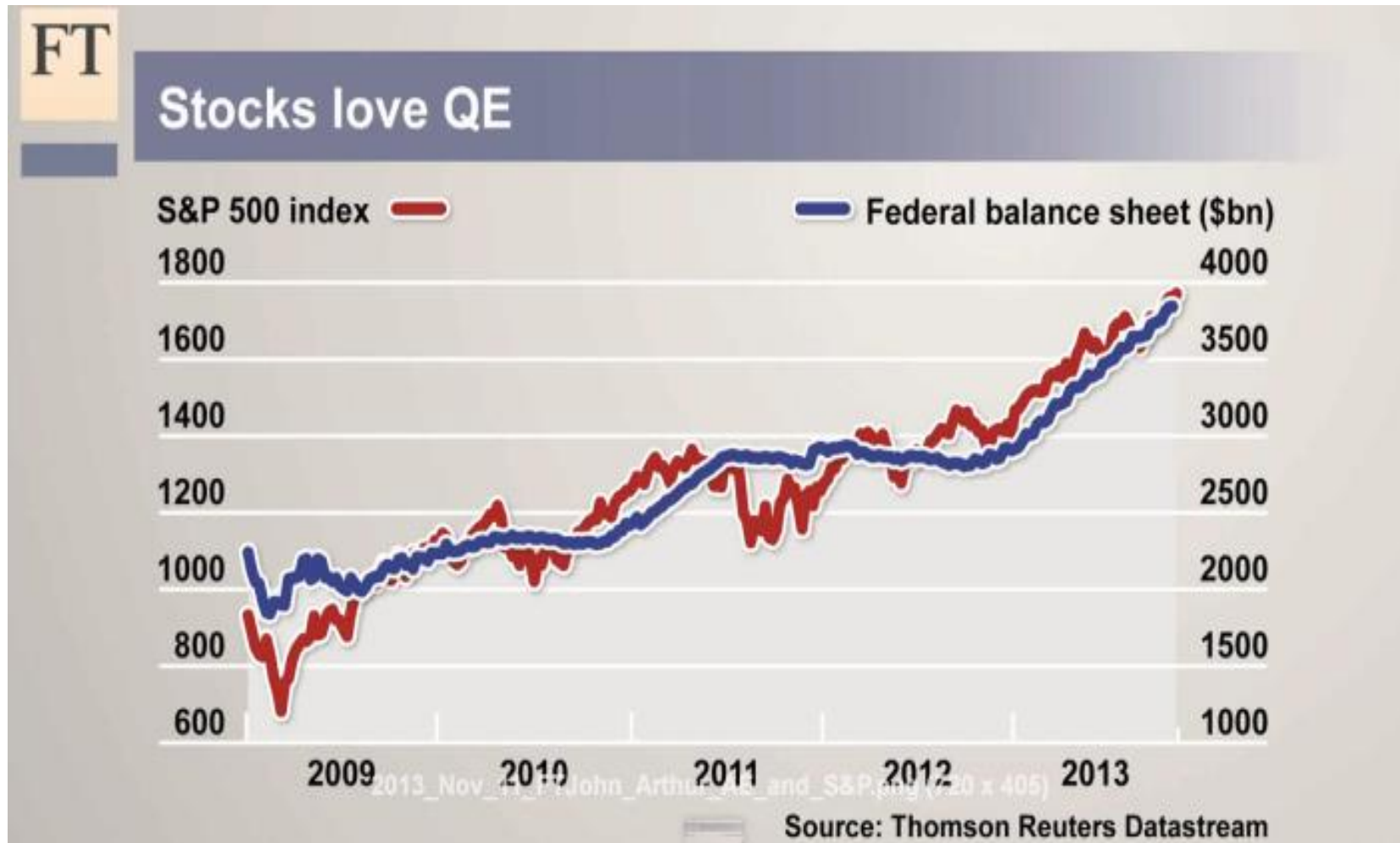
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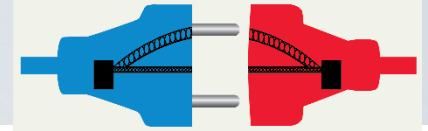
Source: IMF.



# ... asset price inflation



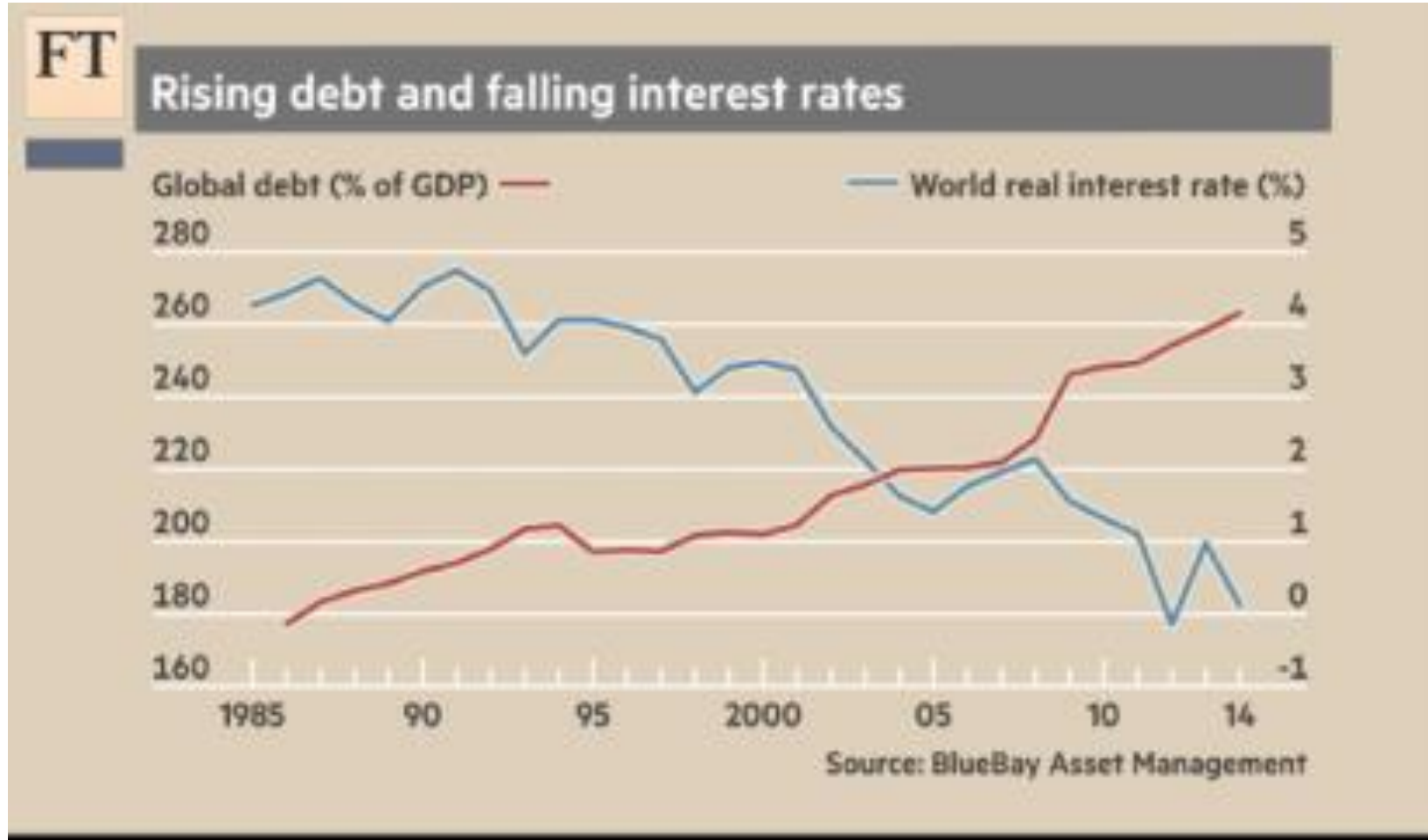
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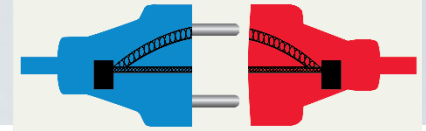
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# Falling global interest rates encouraging surge in global debt



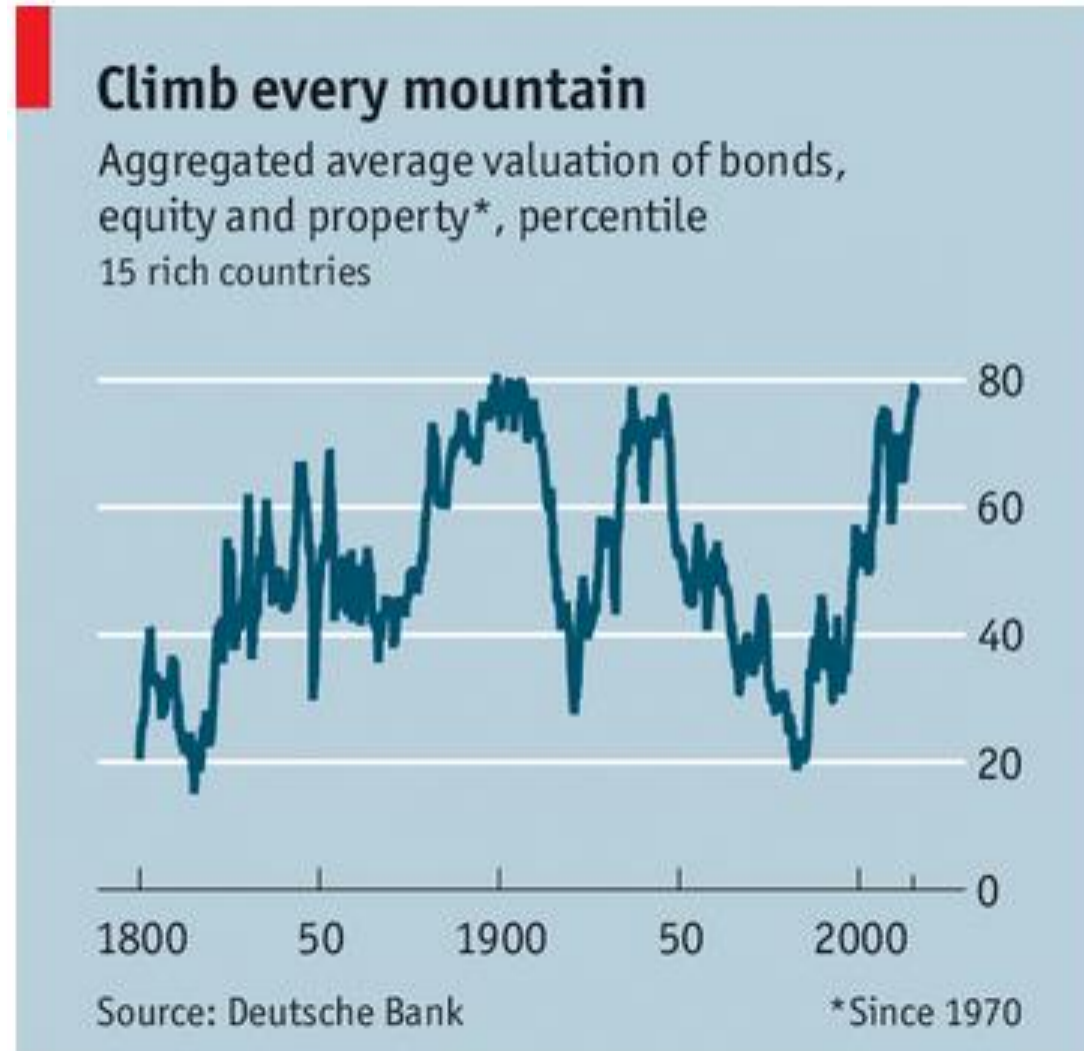
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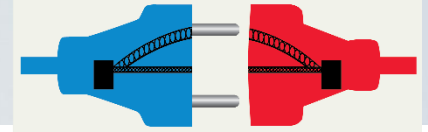
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# A mega asset price bubble?



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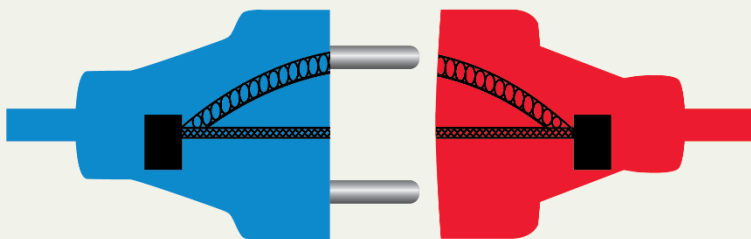
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