

Political and Economic Overview

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INSIDE: A 14-PAGE SPECIAL REPORT ON FINANCIAL RISK

The
Economist

FEBRUARY 23TH - 19TH 2010

Economist.com

Greece and the euro-zone crisis

Toyota's reputation shattered

Iran: barricades and the bomb

Sarah Palin's tea party

War between the generations

New dangers for the world economy

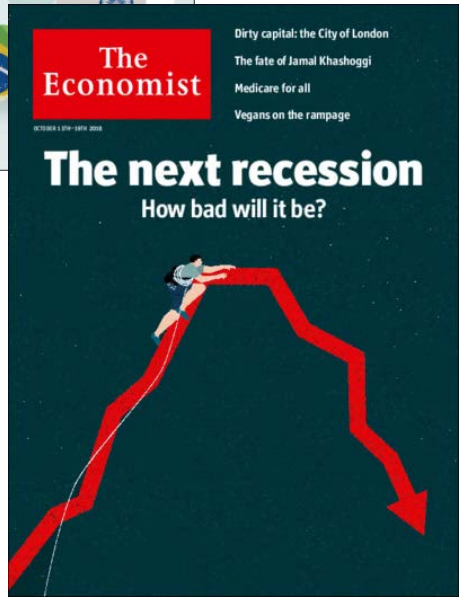
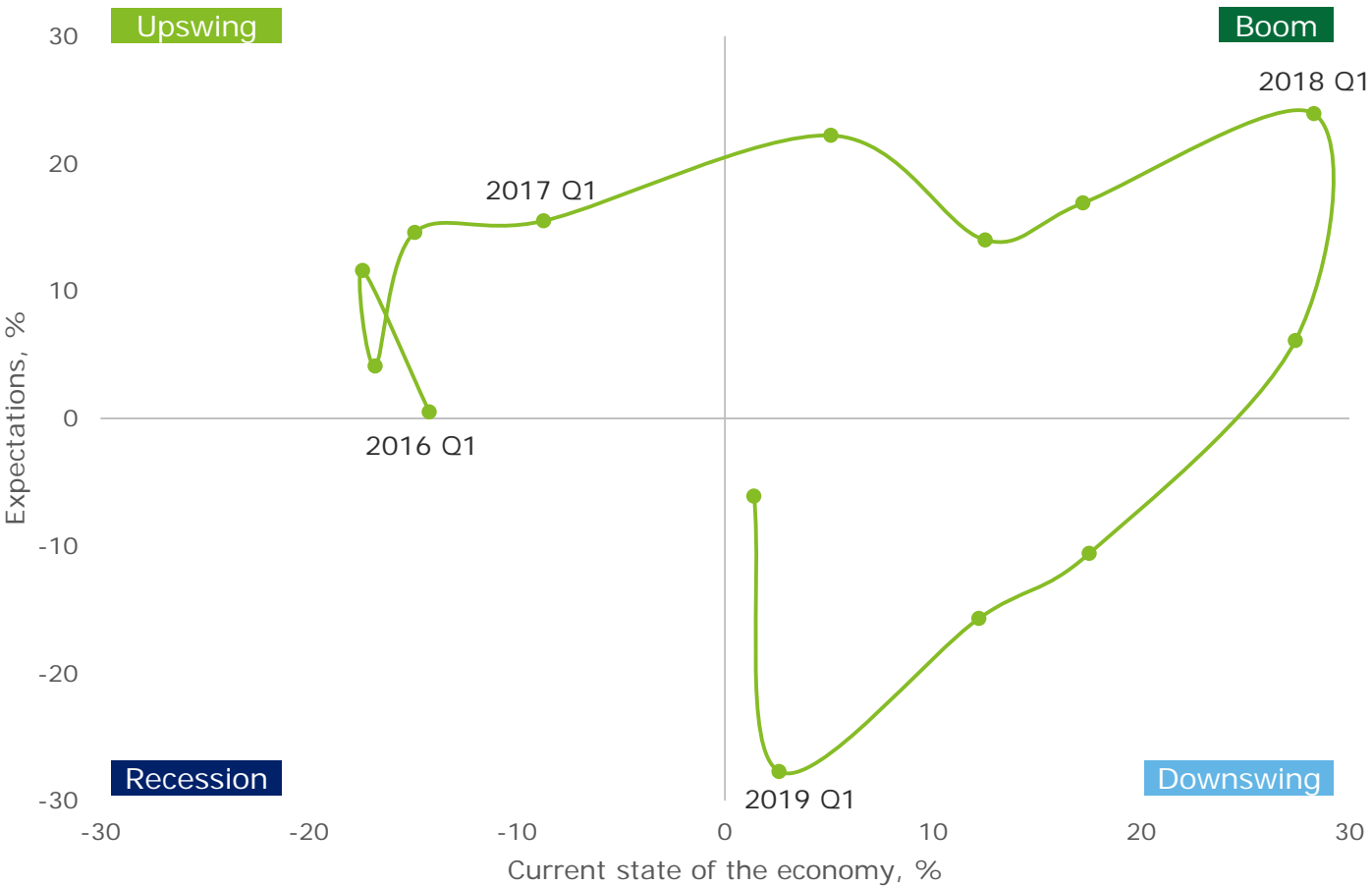


Current situation and outlook

Current Situation | GDP growth

Growth and growth expectations have slowed down since last year

Ifo World Economic Survey Index

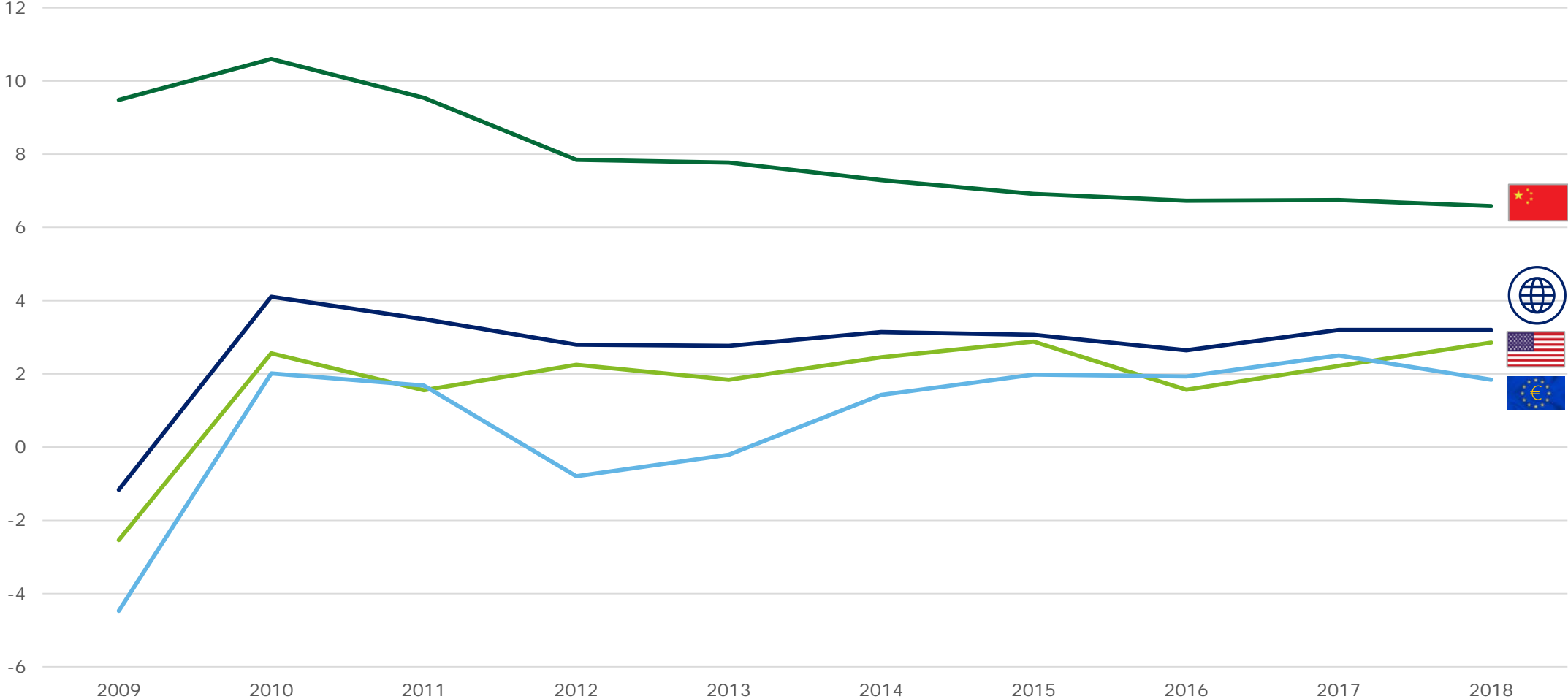


Source: ifo Insitute

Current Situation | GDP growth

Growth slowdown affects all regions – following a very long recovery after the crisis

Real GDP growth for selected economies (in %)



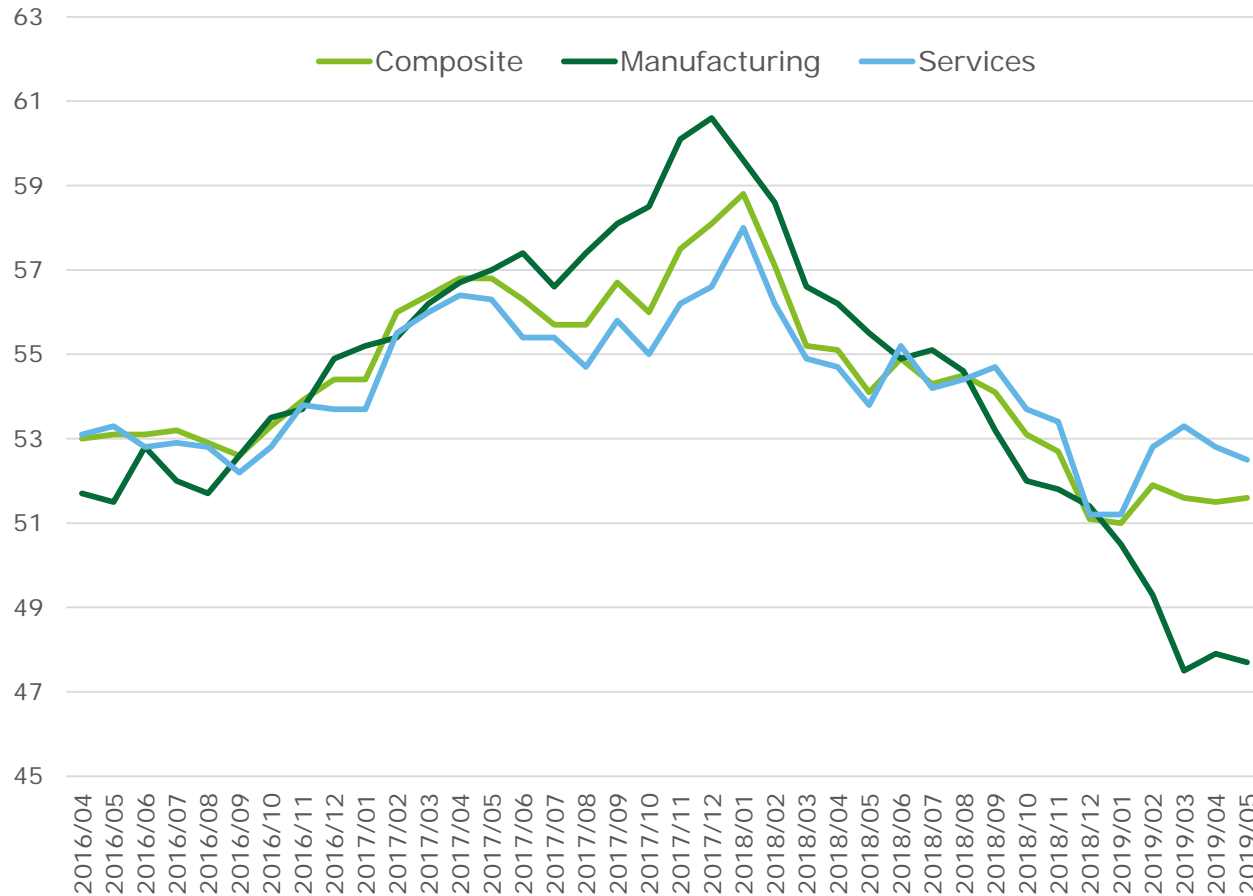
Source: Oxford Economics
2019 Deloitte

Current Situation | Eurozone

Europe is developing into a two-tier economy



Purchasing Manager Index Eurozone (50 = no change)



Source: IHS Markit, Bloomberg



Labour markets are still thriving, supporting consumption



Diverging trends for manufacturing and services



Political uncertainties: Brexit, gilet jaunes, Italy-EU conflict, populism, protectionism



Baseline scenario: decreasing GDP growth, depending on consumption – very large differences between European countries

Current Situation | Key risk: Brexit

A hard Brexit continues to be a very realistic outcome

- **Political situation:** Unlikely that withdrawal agreement will pass UK parliament, EU excluded new negotiations
- **Given current red lines** on both sides, an agreement seems not feasible
- **A hard Brexit** is a realistic option and would disrupt a very close economic relationship – almost half of UK exports go to the EU, a fifth of EU exports to the UK
- **Most affected areas:** Trade, supply chains, taxes, legal issues

Trade volume with UK in USD (bn, 2017)

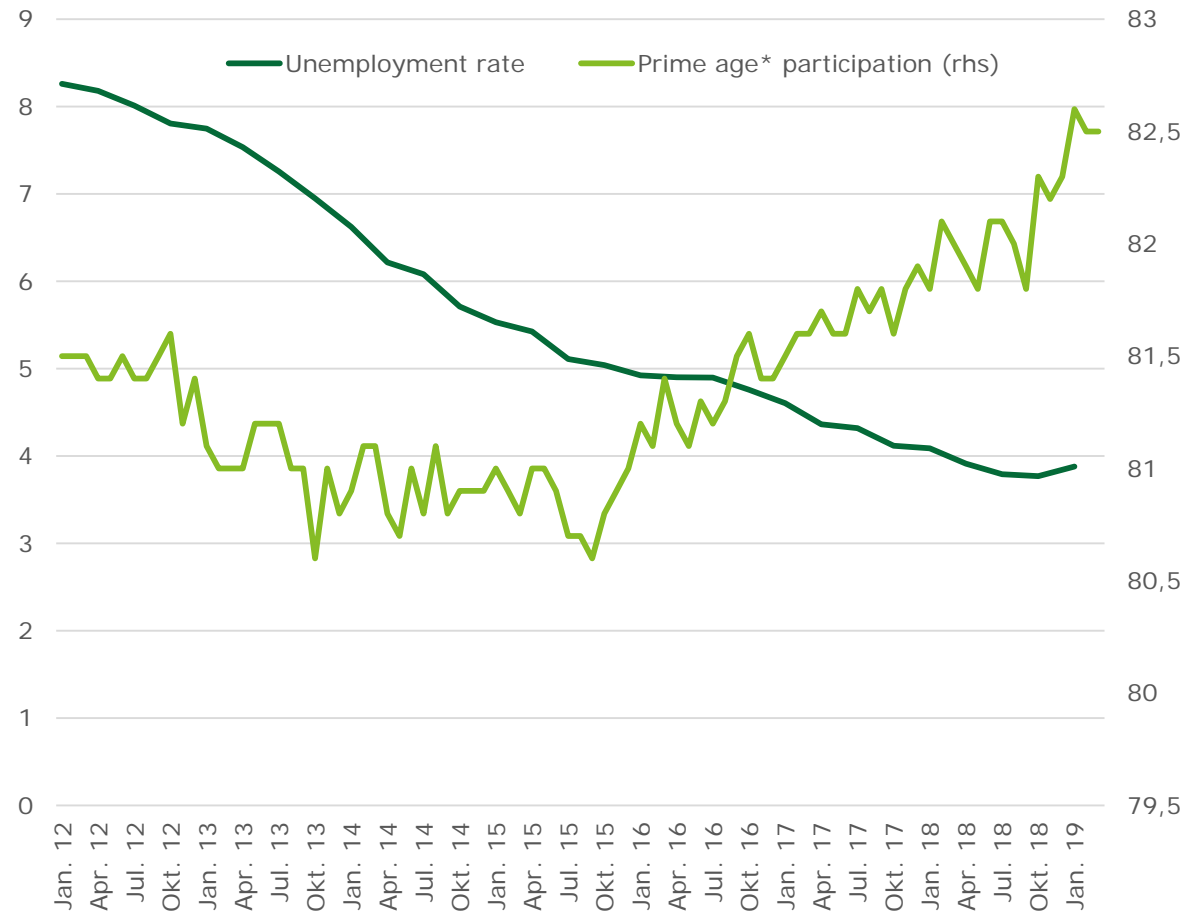


Current Situation | United States

Fiscal stimulus and labor markets drive the economy – for now



US labor market tightening (unemployment and participation rate in %)



Source: OECD, 1. defined as 25-54 years
2019 Deloitte



Thriving labor markets support robust consumption growth



Early consumption indicators are moving sideways



Fiscal stimulus dissipating – will there be a new one?



Trade conflict with China threatens exports and supply chains / drives import prices and inflation



Baseline scenario: wage growth, but declining GDP growth

Current Situation | China

Slowing growth prospects for China amidst trade headwinds



Real GDP and trade growth (in %, y-o-y changes)



Slowest growth rates in 28 years



Trade tensions with the United States putting downward pressure on growth



Consumption growth benefits from solid wage growth and tax cuts



Chinese leadership determined to stabilize economy



Baseline scenario: growth around 6%

Source: OECD

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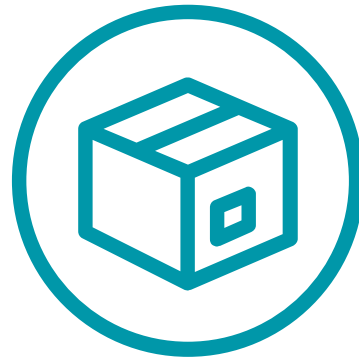
Economic challenges and secular trends: Protectionism

Protectionism

Especially the manufacturing sector suffers from the increasing number of distortions in international markets



Since 2018, the US and China have together placed tariffs on more than **\$360 billion** worth of each other's products



By 2018, over **70%** of world goods exports faced one or more policy-induced trade distortions

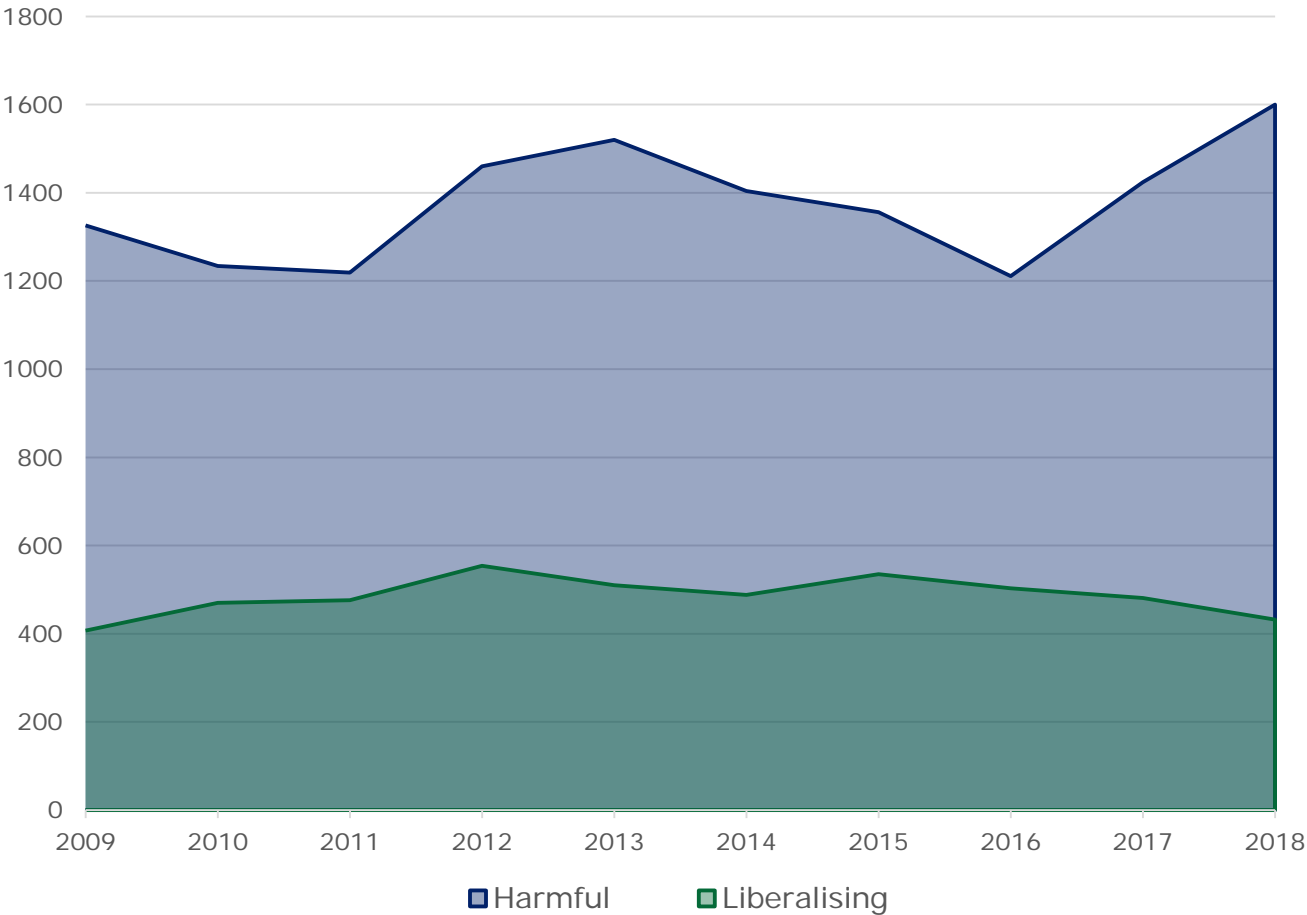


Most affected **sectors**: iron, steel and metal products, chemicals, motor vehicles

Political Risk | Protectionism

Protectionism on the rise – harmful interventions to trade have increased in the last two years

Number of new interventions implemented per year

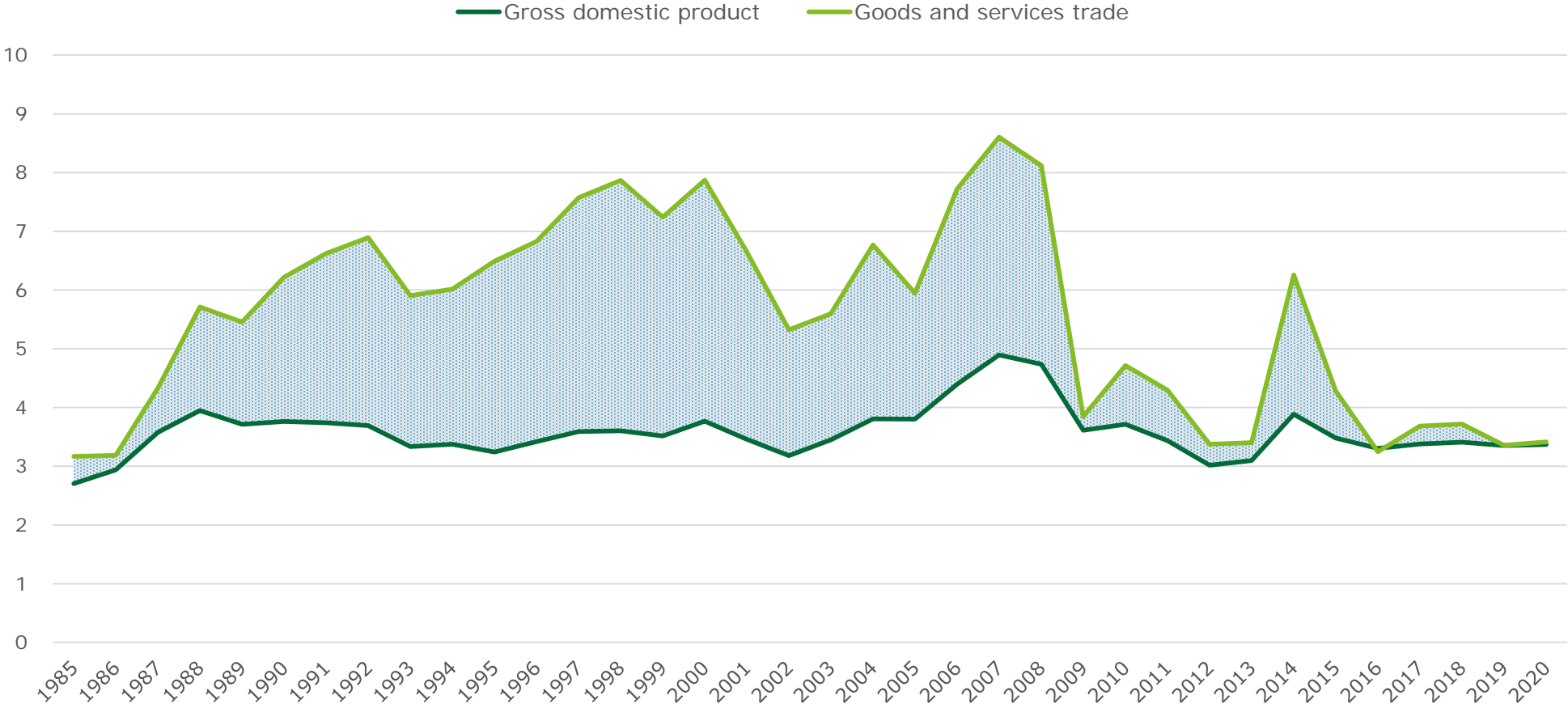


Source: Global Trade Alert
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Protectionism

Trade has been a key driver of world economic growth, but that seems to be over

Annual growth rates world trade and world GDP



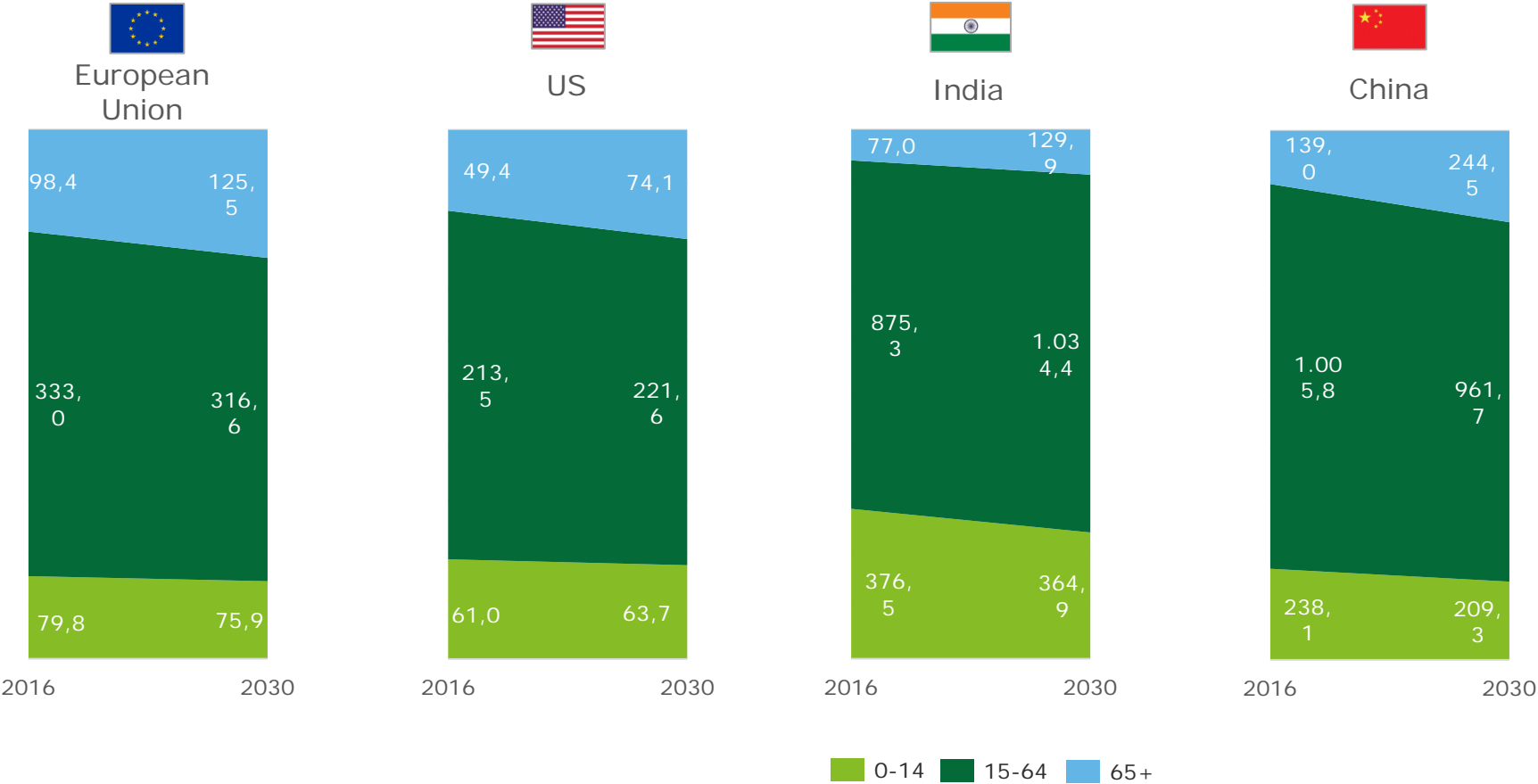
Source: OECD

Economic challenges and secular trends: Demographics & Urbanisation

Demographics | Ageing consumers

Ageing societies in both industrialized countries and emerging markets

Development of age structure by region in million inhabitants

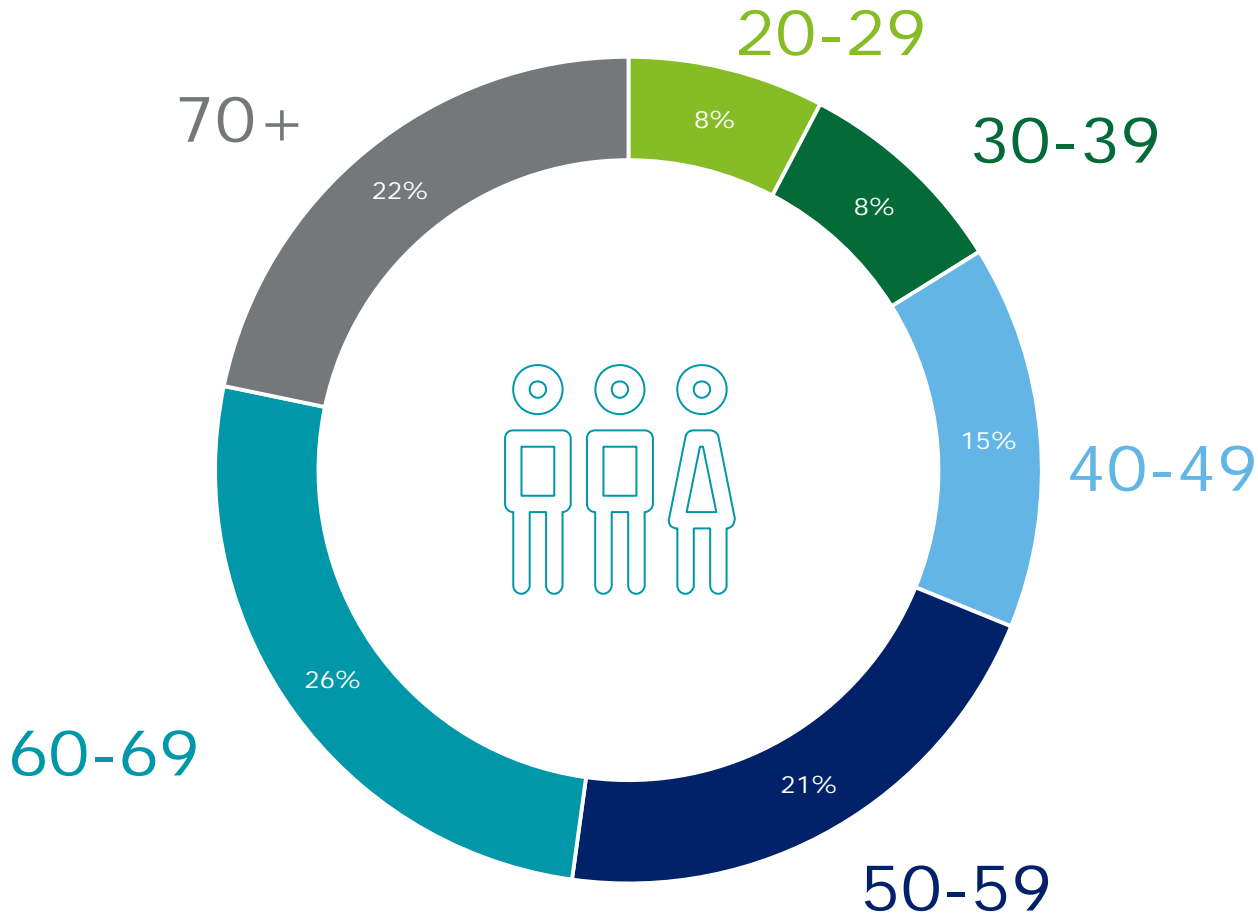


Source: Oxford Economics
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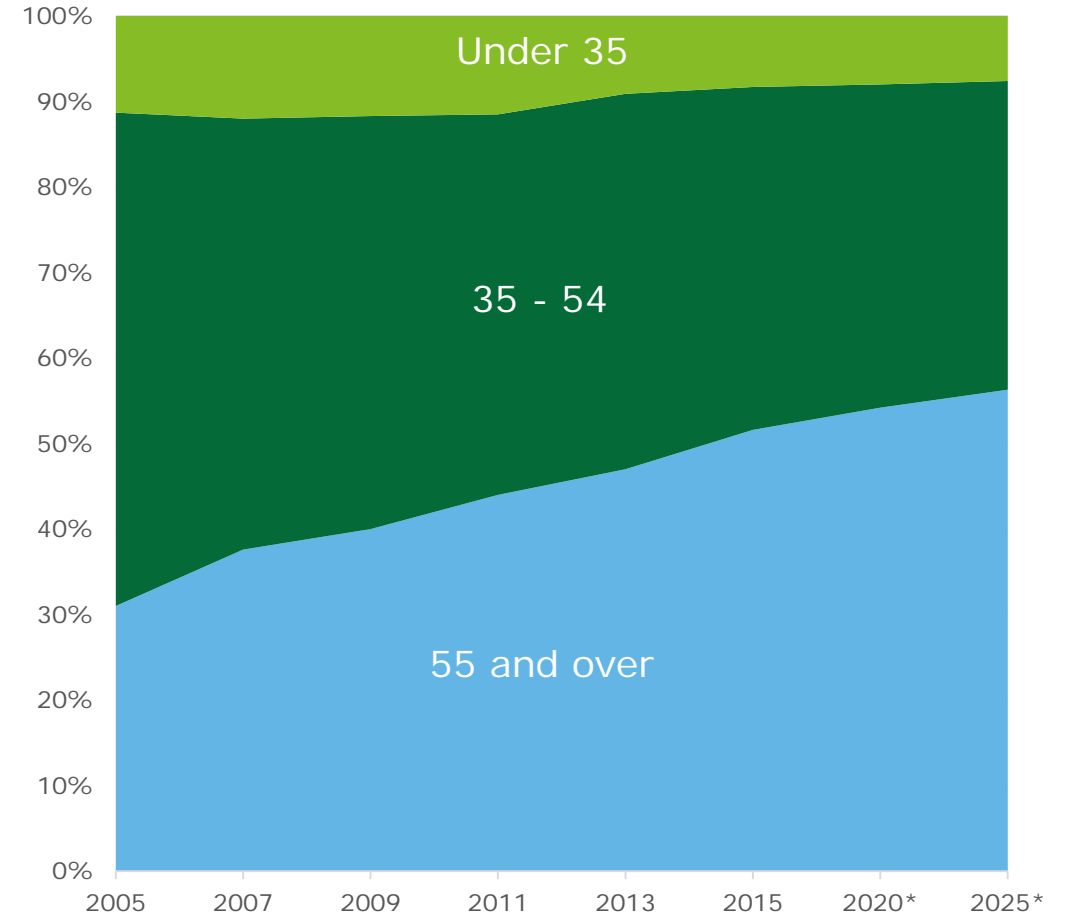
Demographics | Wealth

Wealth is concentrated in older age groups – this will have significant implications for consumption and future spending

Wealth distribution*, by age group



U.S. consumer home improvement spending share 2005-2025, by age

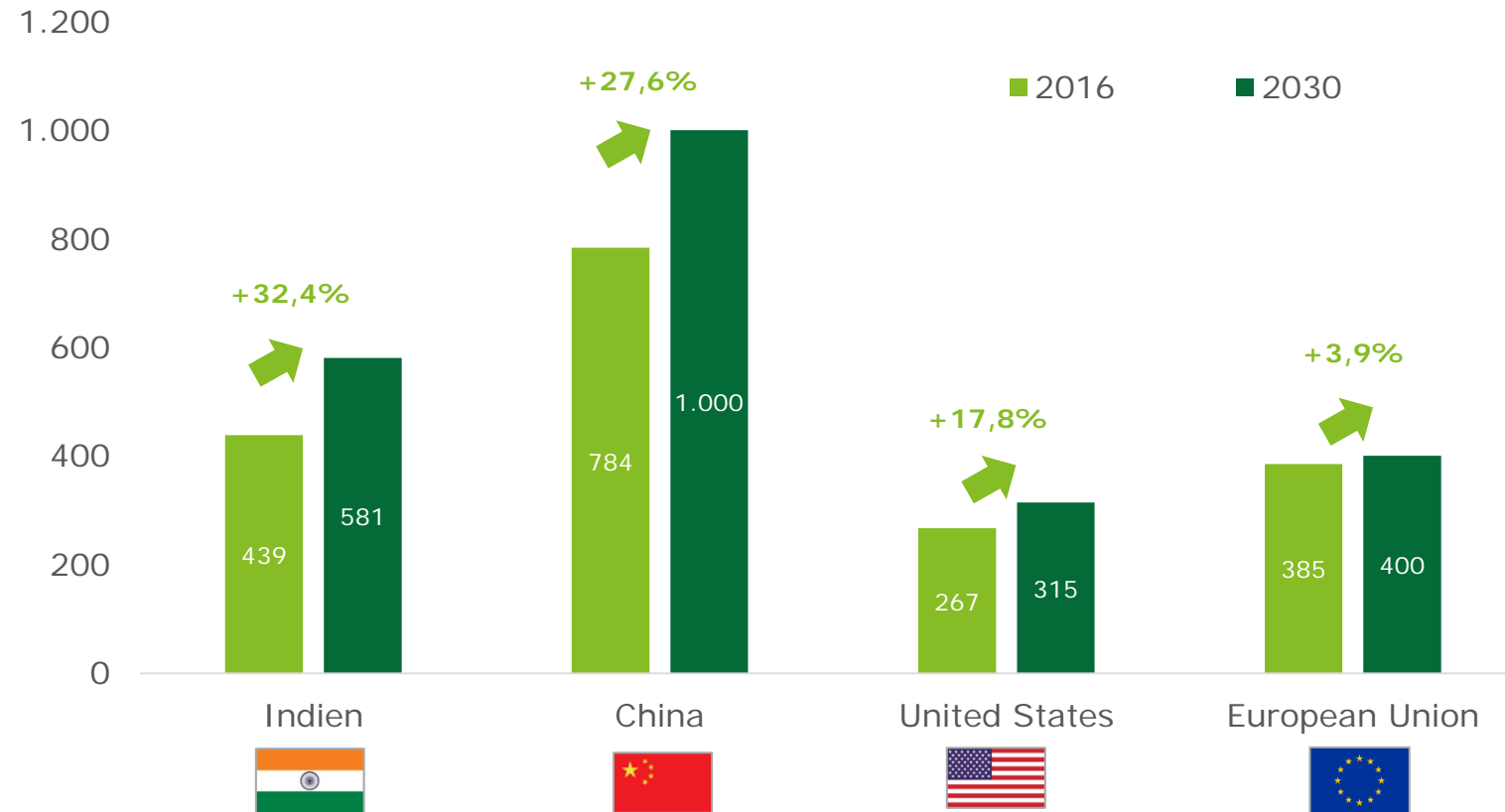


Source: Statista, Credit Suisse (2017), „Global Wealth Report 2017“, average over selected countries: France, Germany, Italy, Spain, United Kingdom, United States
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Urbanisation | Outlook

Strong increase of urban population in India, China und the US

Urban population in million inhabitants



New city economies:

- Number of global megacities grows substantially until 2030 (>10 million inhabitants)
- 31 megacities in 2016 – 10 more in 2030, mostly in Asia and Africa
- The dynamics of demographic development are becoming increasingly differentiated across cities

Source: Oxford Economics, United Nations

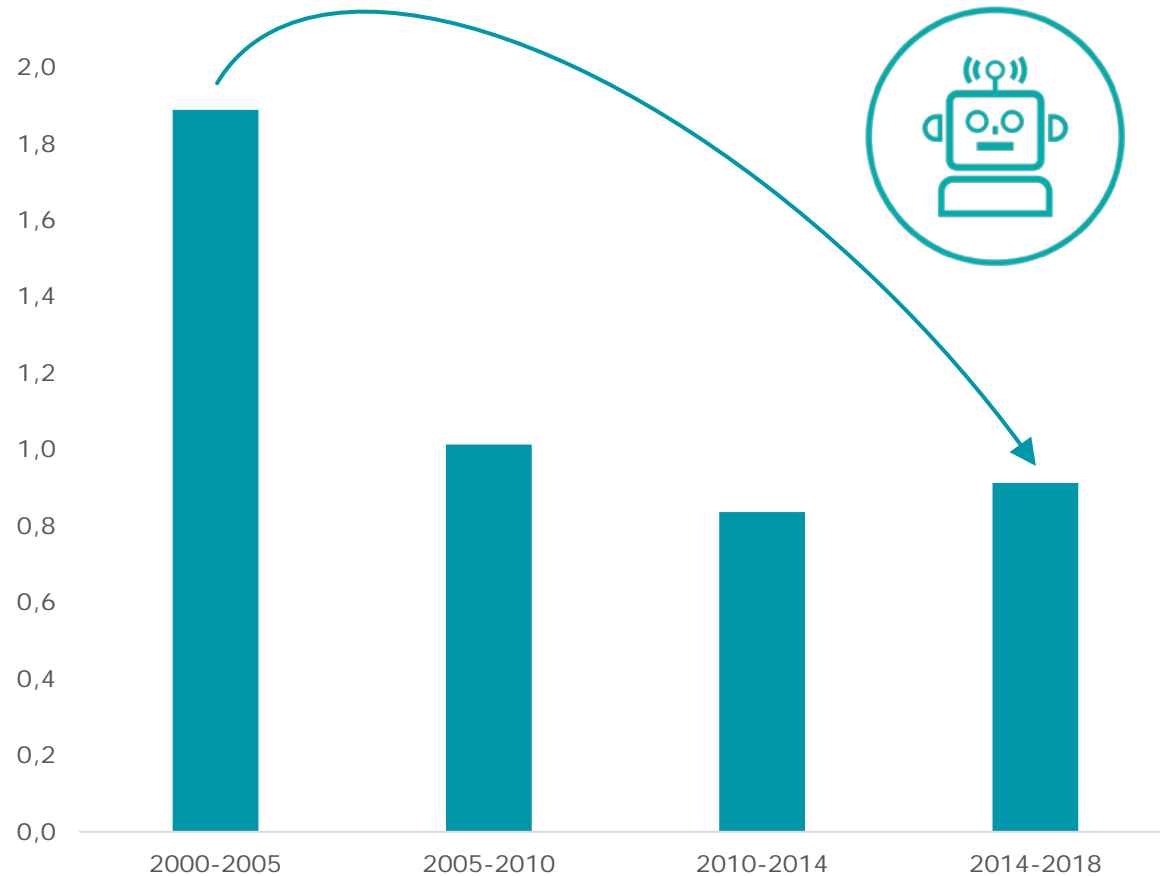
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Economic challenges and secular trends: Productivity

Productivity | Growth

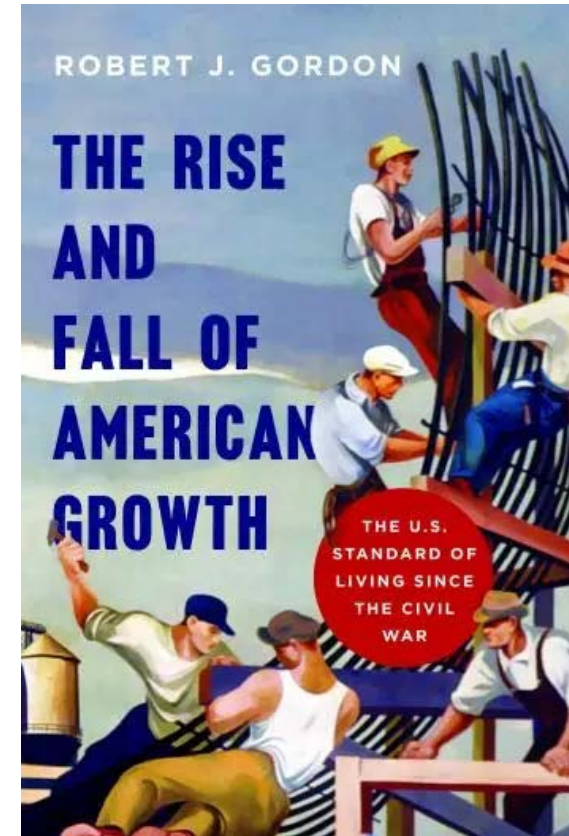
Productivity growth in most countries remains weak

Labour productivity growth in the OECD (GDP per hour worked, percentage rate at annual rate)



Source: OECD

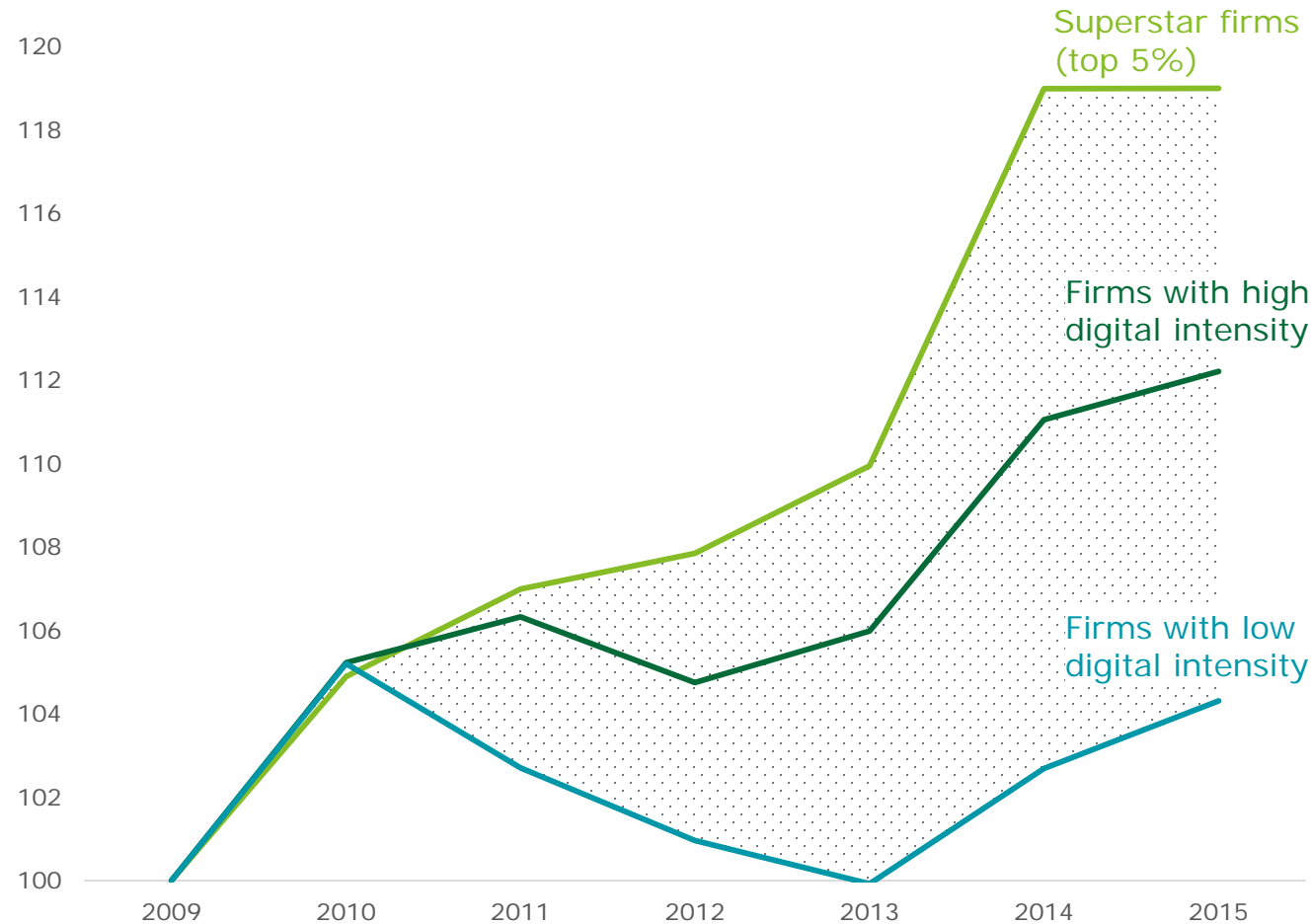
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Productivity

Productivity growth is very unequally distributed – a superstar economy is emerging

Multifactor productivity (2009=100)



Differentiators:

- Advanced digital technology
- Organisational capital and management skills
- Specialised and generic IT-skills

Source: OECD Digital Dividend 2019

Where to go from here?



Prepare for rising protectionism



Surf the demographic wave



Don't overlook urban markets



Digitalisation is key to productivity





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