Thoughts on the global economy

April 2017

Ian Stewart, Chief Economist, Deloitte LLP, London
Leading indicators signal stronger growth ahead

Source: Thomson Reuters Datastream

Deloitte Economics & Markets Team
Global growth nudges up in 2017, but not back to pre-crisis rates

Real GDP growth (% YoY)*

<table>
<thead>
<tr>
<th></th>
<th>Pre-Crisis</th>
<th>Post-Crisis</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>4.2</td>
<td>3.3</td>
<td>3.1</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Advanced</td>
<td>2.8</td>
<td>1.0</td>
<td>1.7</td>
<td>2.0</td>
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<tr>
<td>Emerging</td>
<td>5.9</td>
<td>5.2</td>
<td>4.1</td>
<td>4.5</td>
<td>4.8</td>
</tr>
</tbody>
</table>


Source: IMF World Economic Outlook, April 2017
Why has growth been so weak: when bubbles burst growth suffers

“Over the last 120 years crises have been followed by a downturn lasting on average 2 to 3 years and costing 5 to 10% of GDP”
Eichengreen and Bordo, December 2000

<table>
<thead>
<tr>
<th>Crisis</th>
<th>Dates</th>
<th>Duration</th>
<th>Change in GDP</th>
<th>Change in bank lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Great depression</td>
<td>1929-1933</td>
<td>4</td>
<td>-30</td>
<td>-50</td>
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<tr>
<td>Japan’s lost decade</td>
<td>1996-2005</td>
<td>10</td>
<td>-3.3</td>
<td>-30</td>
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<tr>
<td>Finland’s banking crisis</td>
<td>1990-1996</td>
<td>7</td>
<td>-12</td>
<td>-11</td>
</tr>
</tbody>
</table>

Source: Deloitte Research
Growth potential of Western economies falling

Growth forecasts: 6-10 years ahead

<table>
<thead>
<tr>
<th>Year</th>
<th>USA</th>
<th>Japan</th>
<th>Germany</th>
<th>France</th>
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<td>1.0</td>
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<tr>
<td>2006</td>
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<td>1.5</td>
<td>1.0</td>
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<td>0.5</td>
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<td>2009</td>
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<td>2016</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
</tr>
</tbody>
</table>
UK: millennials’ incomes no better than Gen X’s

Figure 2: For the first time, one generation has been worse off than its predecessor

Average household income for each generation by age, after housing costs

- Gen X (1966-1980)
- Baby boomers (1946-1965)
- Silent gen (1926-1945)
- Greatest gen (1911-1925)
- Forgotten gen (1896-1910)
- Lost gen (1881-1895)

Notes: Data covers Great Britain, 1961 to 2014-15. Real, equivalised incomes in 2014-15 prices using a CPI variant that excludes all housing costs. Figures for each generation are derived from a weighted average of estimates by single year of age for each single-year birth cohort within that generation; generations are included if at least five birth years are present in the data.
Financial crisis has squeezed those in work

Figure 11: Typical pensioner incomes are now above working-age ones

Real equivalised disposable income, after housing costs

Notes: Adjusted to 2014-15 prices using a CPI variant that excludes all housing costs.

Source: RF analysis of DWP, Households Below Average Income
Shocking increase in mortality among middle age Americans

Drug, alcohol and suicide mortality, men and women ages 50-54
Free trade needs re-booting

World trade in goods & services: % change yoy

- Pre-crisis average: 6.0%
- Post '12 average: 3.7%

Ageing populations

Global population by age and sex, m

2015

MALE ← | FEMALE

Source: UN Population Division
Declining workforce participation = slower growth

Labour participation rates, %
Share of population age 15+, per cent

UK employment: over-50s vs 25-49 year olds, (1997 = 100)

Over-50s
25-49 year olds

Source: Thomson Reuters Economists

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Job insecurity

% of 15-24 year olds on temporary employment contracts

- Spain
- France
- Italy
- UK

98 00 02 04 06 08 10 12 14 16 18
Is innovation is no longer moving the dial on growth?

VS
Creative destruction drives prosperity

US manufacturing output and employment, 1979 = 100

Output: up 120%

Employment: down 47%
Innovation drives down prices

Expenditure on food as a % of total UK household expenditure
More computer power for your money

Computer purchasing power rises 43 fold in 20 years

1996 = 100

2017 = 4334
Technology replaces human muscle power = fewer jobs, higher productivity

Source: England and Wales Census records, authors’ calculations

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Less spent on essentials, more spending elsewhere
Productivity raises living standards = more spending on “luxuries”

Source: England and Wales Census records, authors’ calculations
Jobs in knowledge-intensive sectors rise

Chart 4. Accountants

- Number of accountants (LHS)
- % of workforce (RHS)

Source: England and Wales Census records, authors’ calculations
Data for 1921 and 1931 have been interpolated due to discontinuities in definitions and data

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Human desires unpredictable
Conventional measures of GDP struggle to capture these benefits
Is the world really getting worse?

Survey result: Only few people know that extreme poverty is declining

Shown is how respondents to the survey by Gapminder completed the following statement:

“In the last 30 years the proportion of the World population living in extreme poverty has…”
World population living in extreme poverty
Defined as consumption/income < $1.90 per day adjusted for inflation

Data source: World Poverty in absolute numbers (Max Roser based on World Bank and Bourguignon and Morrisson (2002))
Long squeeze on labour’s share of GDP coming to an end?

US: wages & profits share of GDP

Percent of GDP

Wages (LHS)

Profits (RHS)
Working long hours doesn’t make you productive or rich
Conclusions

• Global growth accelerating
• Upturn in emerging and developed markets
• Trend growth rates can be raised
• Increase workforce participation
• Re-boot global trade
• Invest and innovate
• Improve regulation, open markets, sharpen incentives
• Measure better