

# *Global Economic Outlook*

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September 2012



# *Agenda*

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Global overview

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Short term prospects for Europe, US and BRICs

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Long term trends: demographics, growth and income levels

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Key opportunities and challenges for Brazil

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Q&A

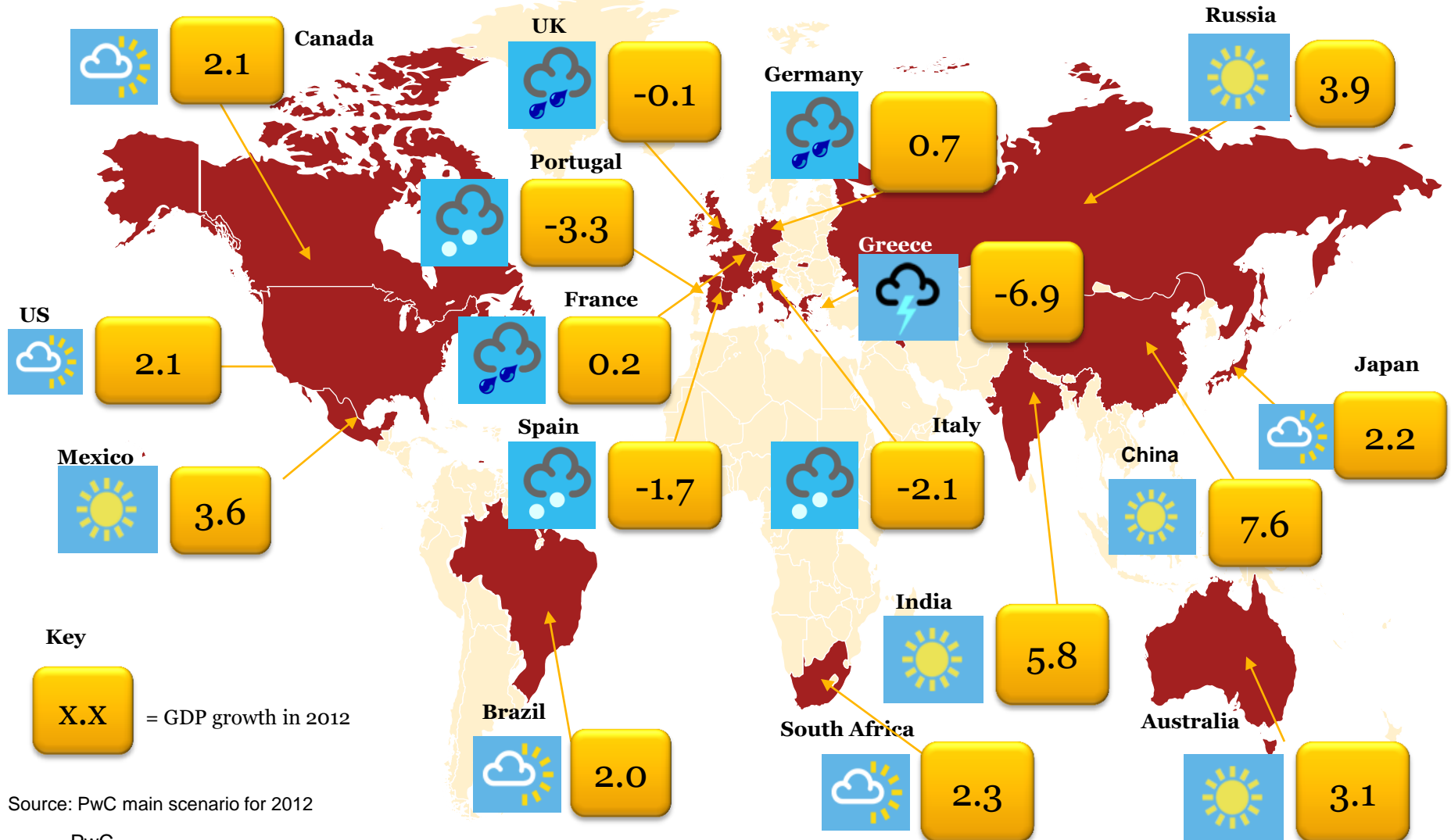
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## *Key points*

- **Hangover from global financial crisis** continues to dampen growth around the world
- Risks around European growth remain weighted to the downside at present given the ongoing challenges in the **Eurozone**, which will take many years to resolve
- **US** is growing at around 2% but may find it hard to accelerate in medium term as fiscal deficit still needs to be tackled
- **China and India** have slowed but retain strong long term growth potential
- **Brazil also has great potential** subject to improving the fiscal position and boosting savings, investment and competitiveness

# Global outlook very mixed, with continuing storms in Europe and recent slowdown in BRICs



Key

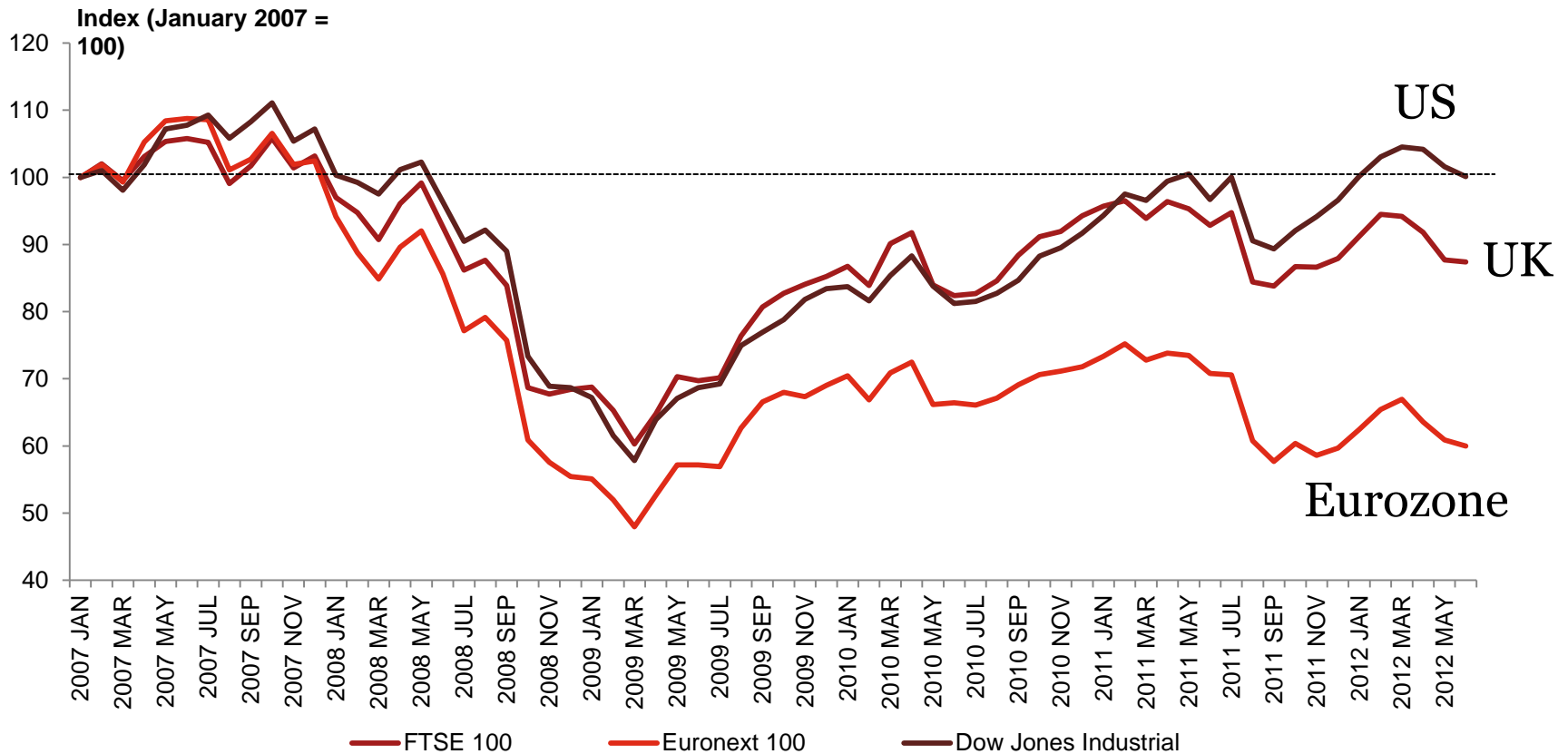
X.X = GDP growth in 2012

Source: PwC main scenario for 2012

PwC

# Worldwide markets were spooked by the deepening of the Eurozone crisis this spring

## Equity market indices



Source: Datastream

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# *Short term prospects for Europe, US and the BRICs*

# The latest growth figures from Q2 show most of the Eurozone is in recession, with the notable exception of Germany

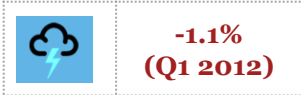
## Key

2012 Q2	
Outlook	Q-o-Q GDP growth (%)

## Netherlands



## Ireland



## Spain



## Portugal



## Germany



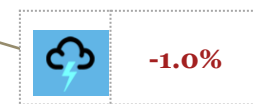
## France



## Italy



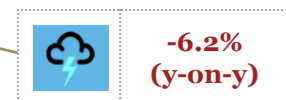
## Finland



## Austria



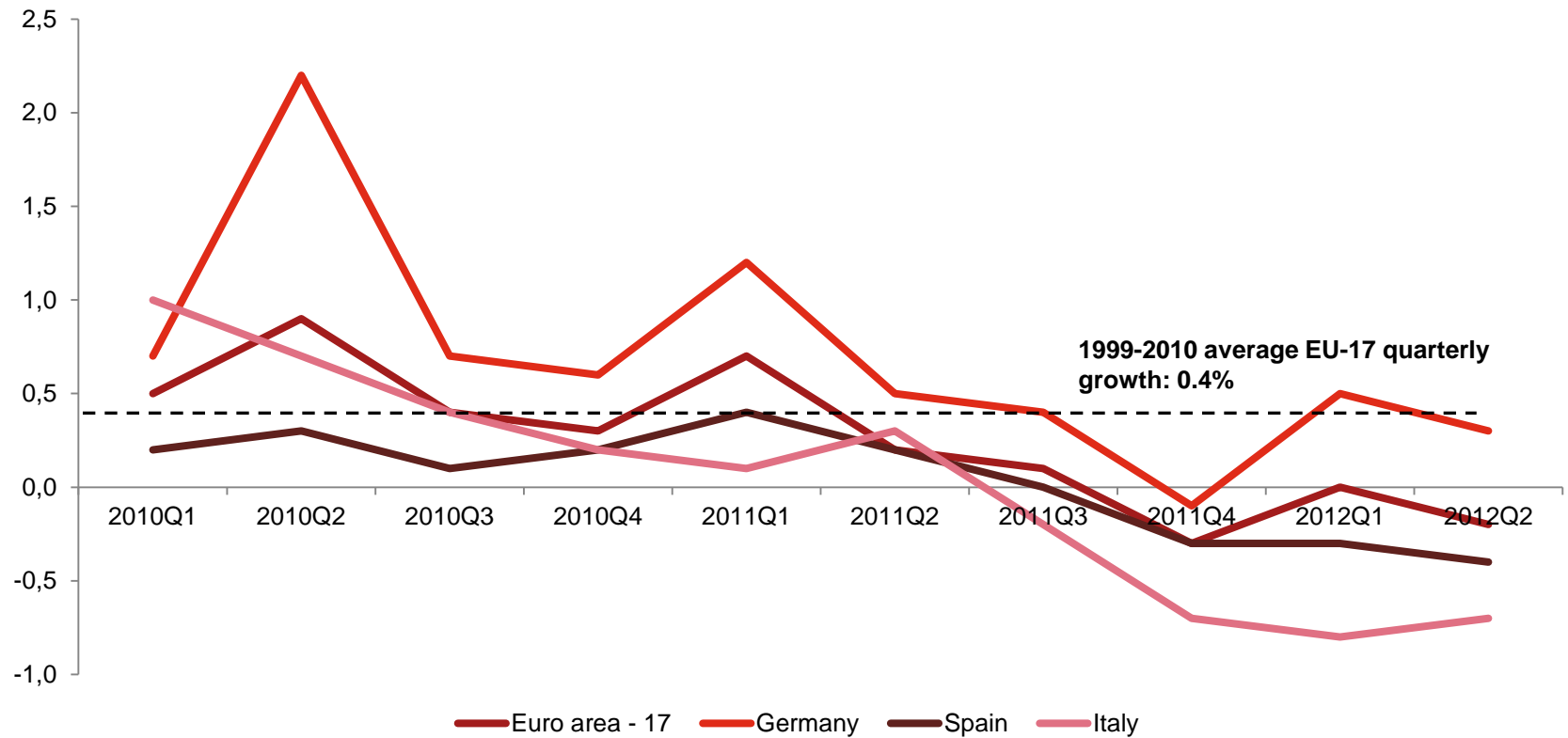
## Greece



Source: Eurostat

# *The 2012 growth outlook for the Eurozone has deteriorated sharply since last summer*

## Real GDP growth (quarter-on-quarter)



Source: Eurostat



# Leading indicators are suggesting that Q3 could be even worse

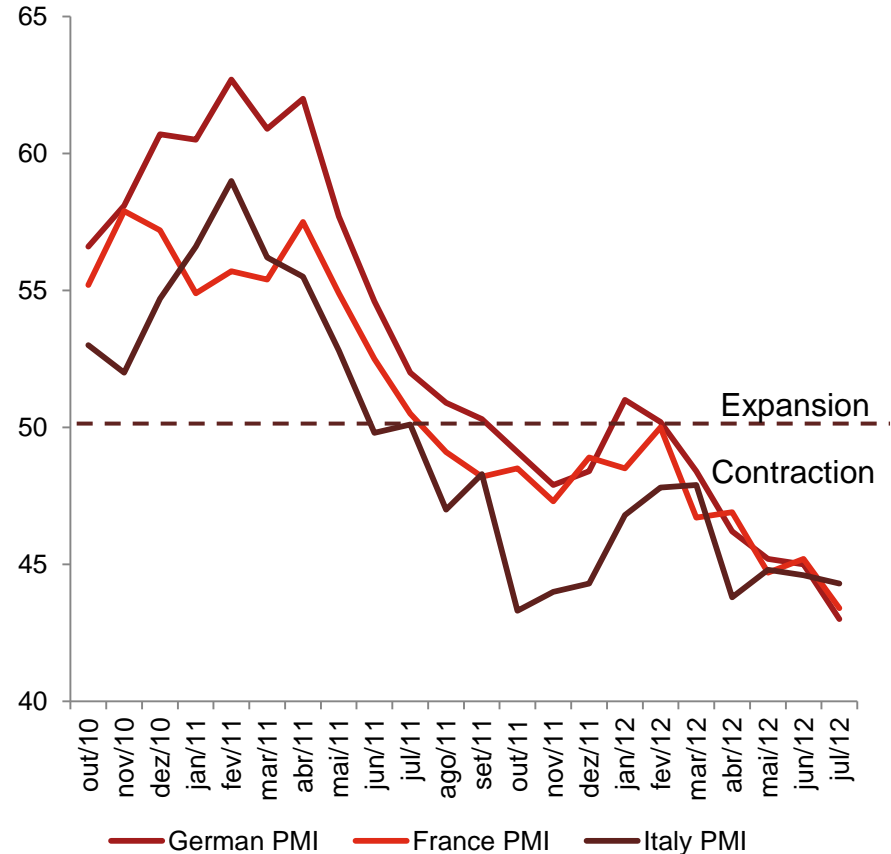
**Eurozone confidence indicators (change over last 10 months to July)**

	Industrial confidence	Consumer confidence	Manufacturing new orders
Italy	●	●	●
Spain	●	●	●
Netherlands	●	●	●
Greece	●	●	●
Germany	●	●	●
Austria	●	●	●
Finland	○	●	●
Portugal	●	●	●
France	●	●	●

- Deterioration by more than 5 percentage points.
- Deterioration by less than 5 percentage points.
- Positive change.
- No change over period

Source: Eurostat  
PwC

**Manufacturing PMI**



Source: Markit

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## *We have created four distinct scenarios describing how events in the Eurozone could evolve*

### **Scenario 1. Successive phases of fiscal and monetary action**

- Eurozone survives
- High inflation, especially in the 'core'
- Return to growth

### **Scenario 2. A sequence of managed defaults causing a second credit crunch**

- Debt restructuring of indebted economies
- Government bails out banks
- Contractionary debt spiral
- Slowing growth

### **Scenario 3. Greek exit but contagion avoided**

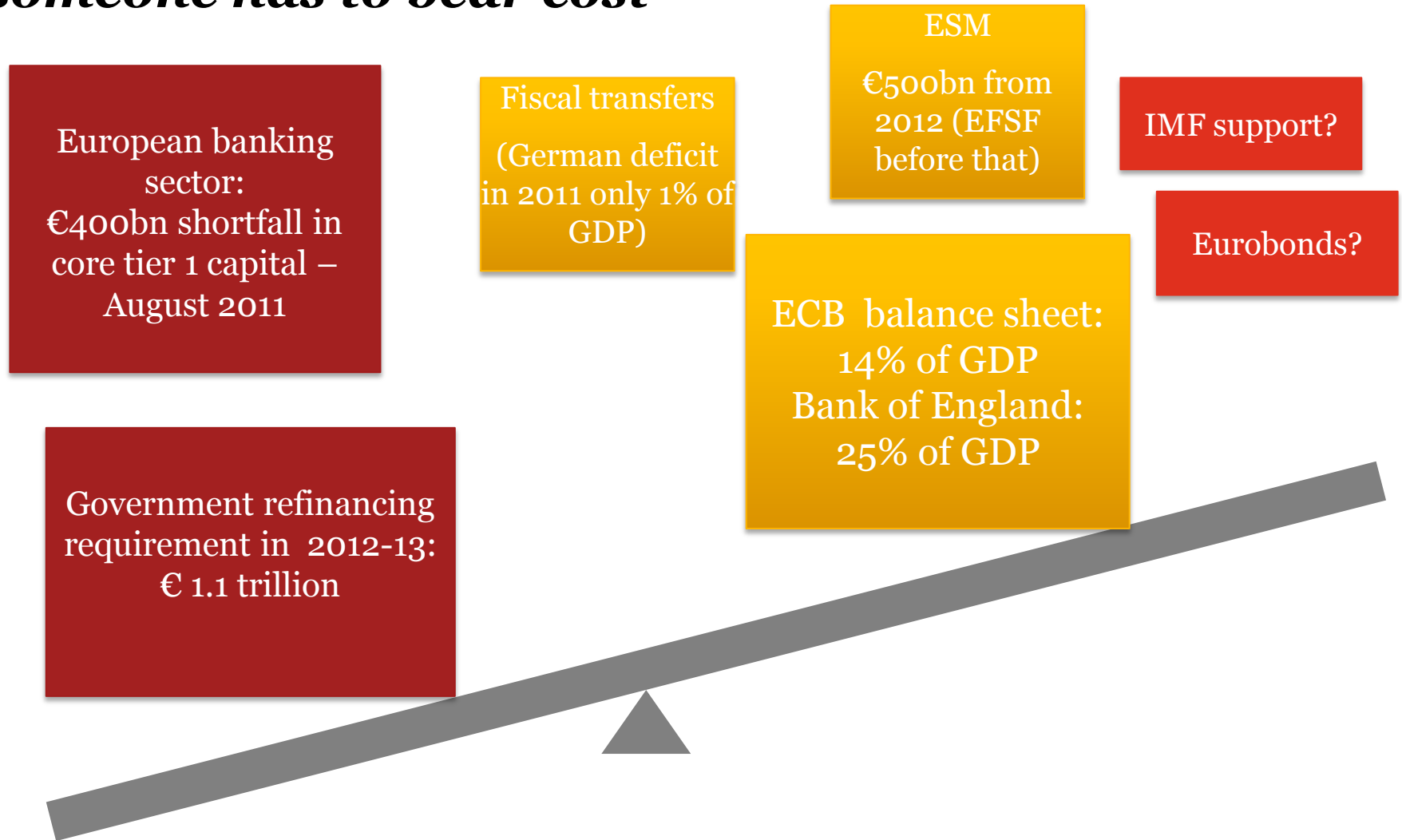
- Greek exit of the Eurozone
- Monetary expansion, fiscal transfers
- Ring fencing by the ECB, EFSF/ESM
- Contagion avoided, currency union remains intact

### **Scenario 4. Contagion with several countries exiting**

- Greek exit of the Eurozone
- Contagion spreads and other peripheral countries exit
- New currency union is formed
- Capital flight to 'new euro'
- Breakaway countries have high inflation and low output

Source: PwC "Now What Next for the Eurozone?" – June 2012

# ***Eurozone can survive (even if Greece exits), but someone has to bear cost***



# ***Eurozone restructuring impacts on business operations could be wide ranging, for example:***

## **REVENUE**

- A 50% fall in revenue in some markets is not inconceivable

## **PRICING**

- Pricing actions, negotiations, and contract amendments will be required

## **EURO LIABILITIES**

- A 20% fall in the value of the Euro would mean non-Euro liabilities would increase for all non-hedged exposures.

# **Business implications**

## **LEASING**

- Leases and long-term commitments may be renegotiated upwards

## **BANK LENDING**

- Bank lending into departing nations will seize up or becoming increasingly tight

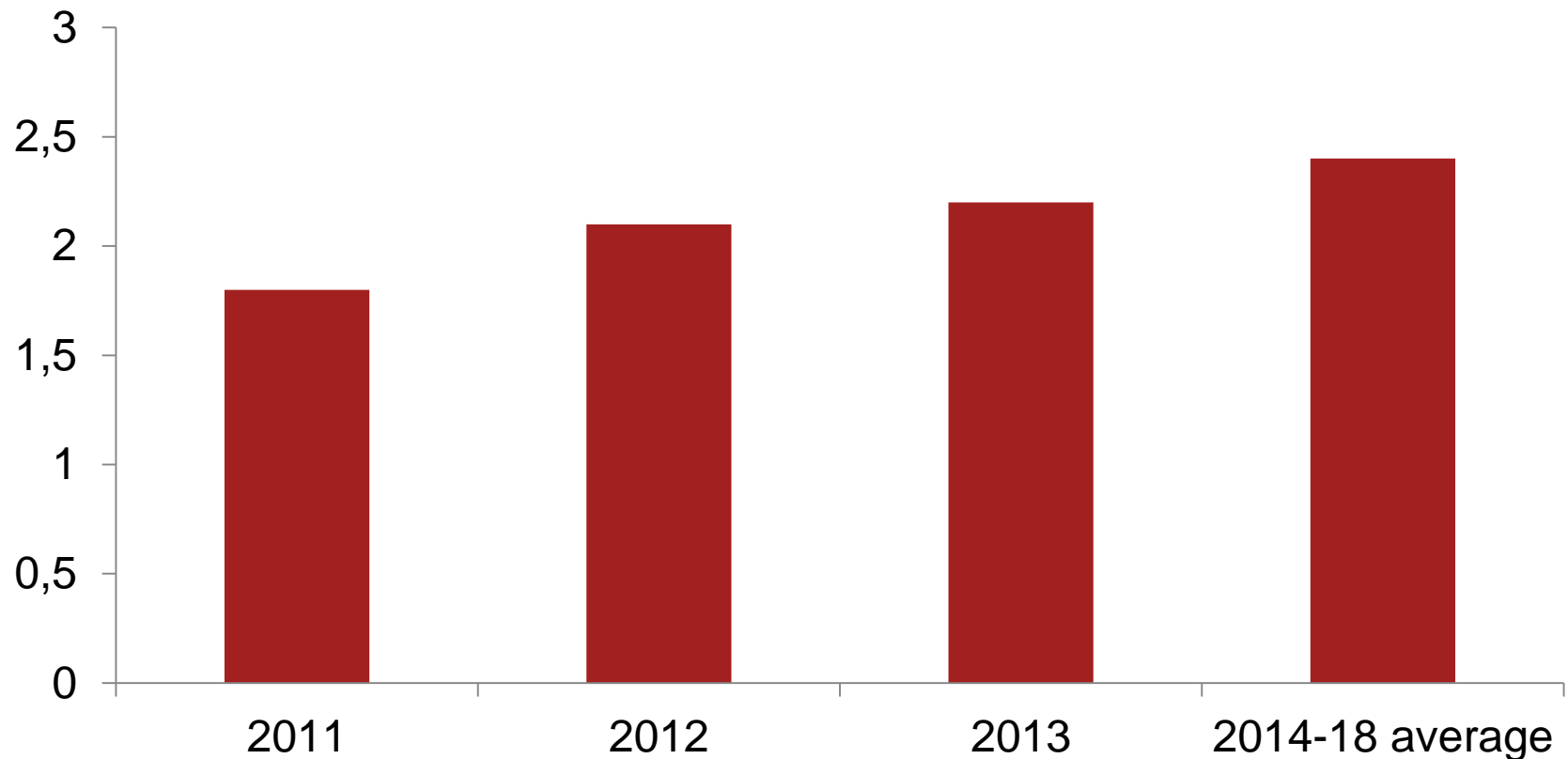
## **REPORTING**

- Statutory and management reporting will become more complex, with additional layers of consolidation

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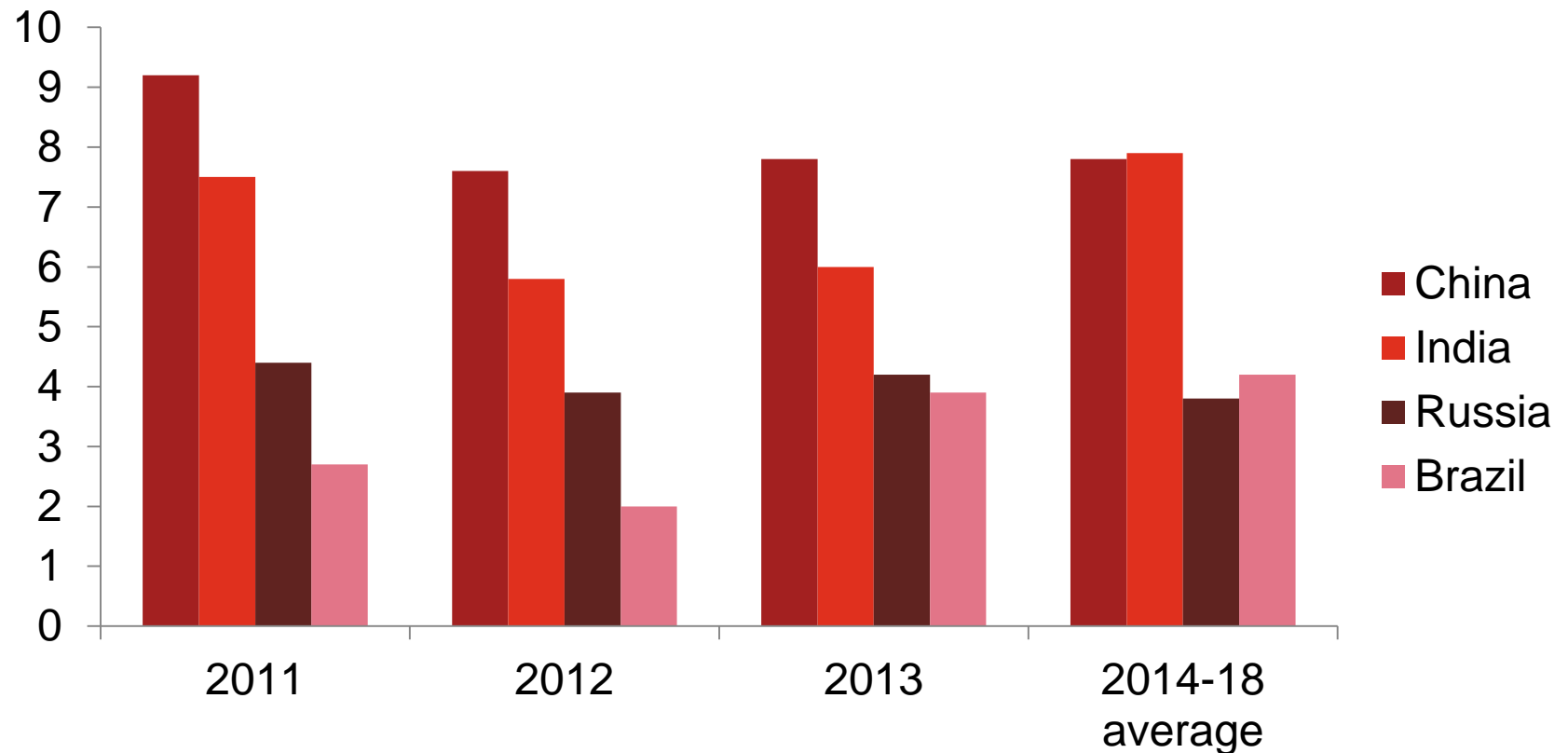
***US growth expected to remain relatively muted given need to tackle budget deficit in medium term***

**% real GDP growth**



# *BRICs expected to recover from recent setbacks*

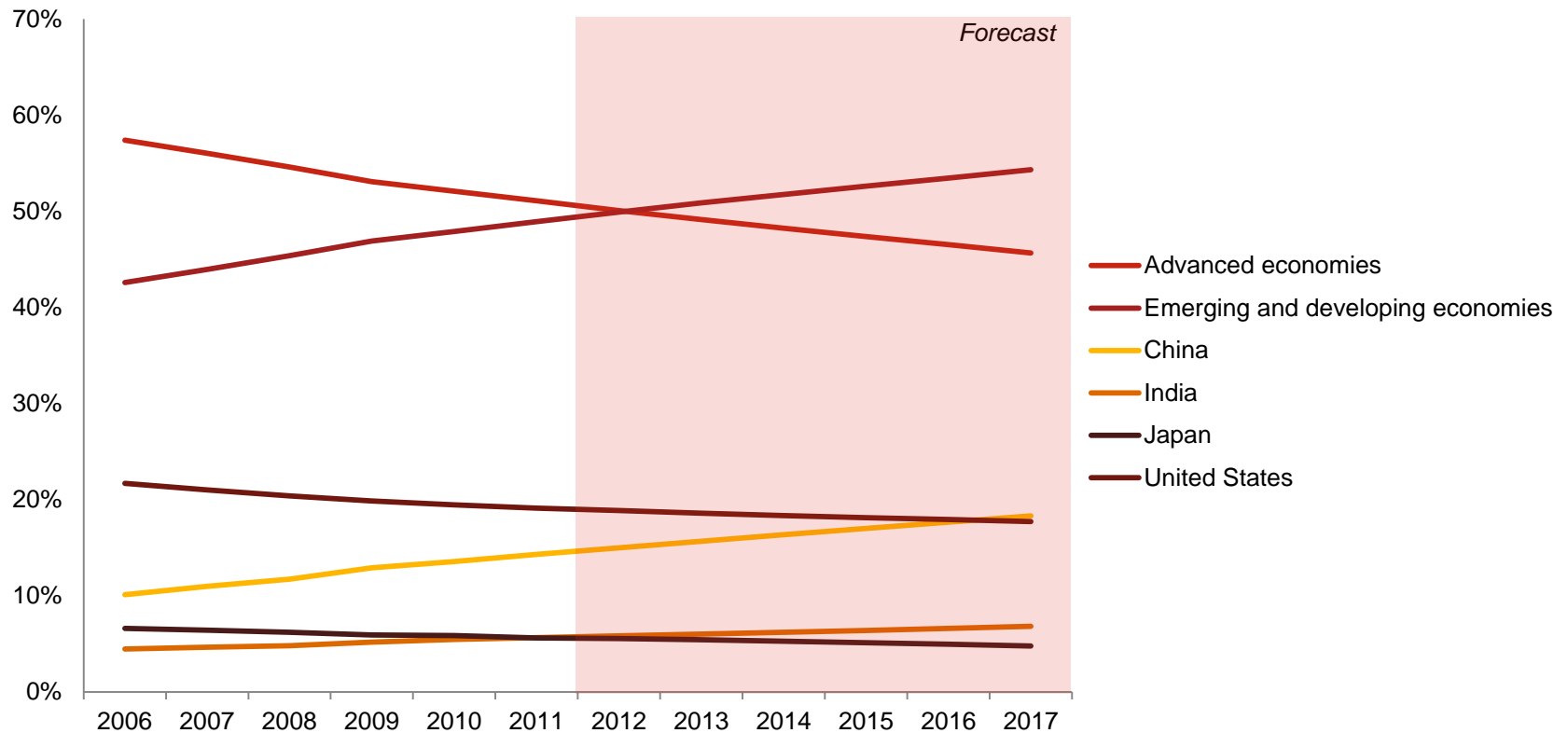
**% real GDP growth**



# *Rise of emerging economies*

Developing economies are expected to overtake advanced economies in share of world GDP from 2012 onwards

## *Share of world GDP, %*



Source: IMF World Economic Outlook, April 2012

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# *Long-term trends: demographics, growth and average income levels*



# *Demographics matter: Age vs. Youth*

## *Fast ageing*

- Russia
- Korea
- Japan
- Poland
- China
- Italy
- Germany

*Decumulation*

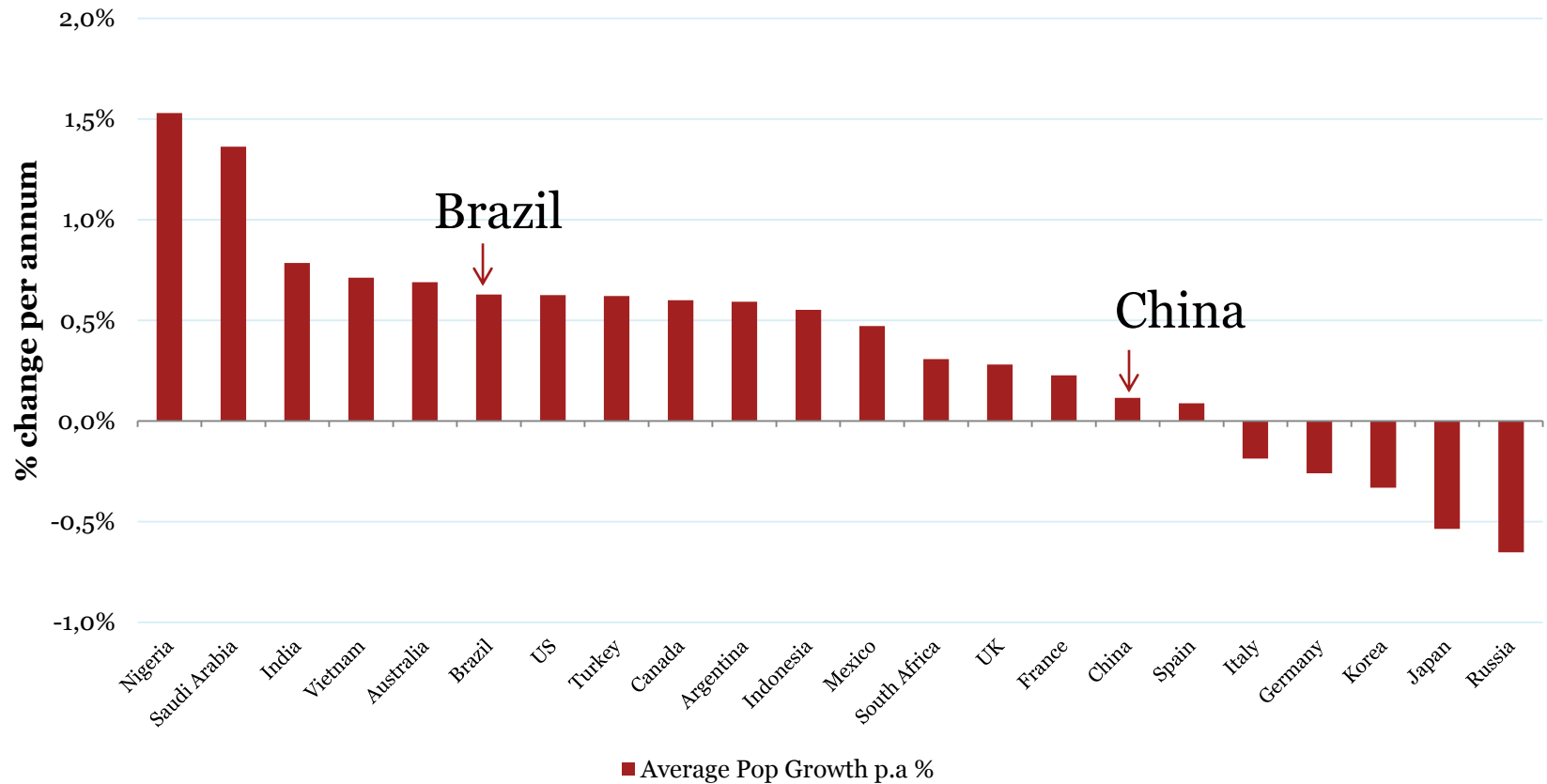
## *Younger for longer*

- India
- Indonesia
- Brazil
- Mexico
- Turkey
- US (relative to EU)

*Accumulation*

# Projected average growth of working population (2009-50) – Brazil relatively well placed

Projected average growth of working age population (2009-50)



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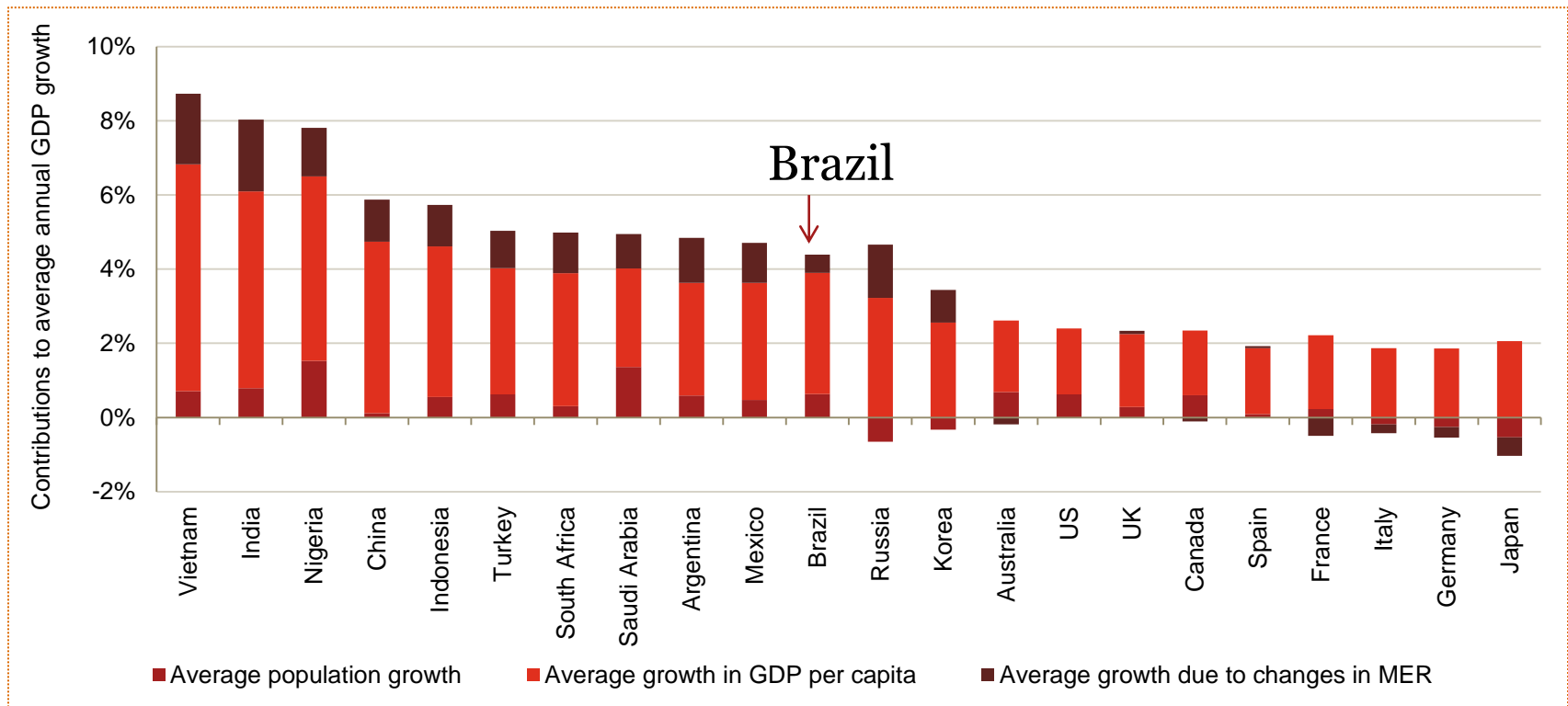
## *Median age of population in 2020 (UN projection)*

- EU: 43
- Russia: 40
- US: 38
- China: 38
- Brazil: 33
- Middle East and North Africa: 31
- India: 28
- Sub-Saharan Africa: 20

**Brazil close to the demographic ‘sweet spot’ by 2020**

# *Emerging economies are set to grow much faster than G7 for the next four decades (though risks are also higher)*

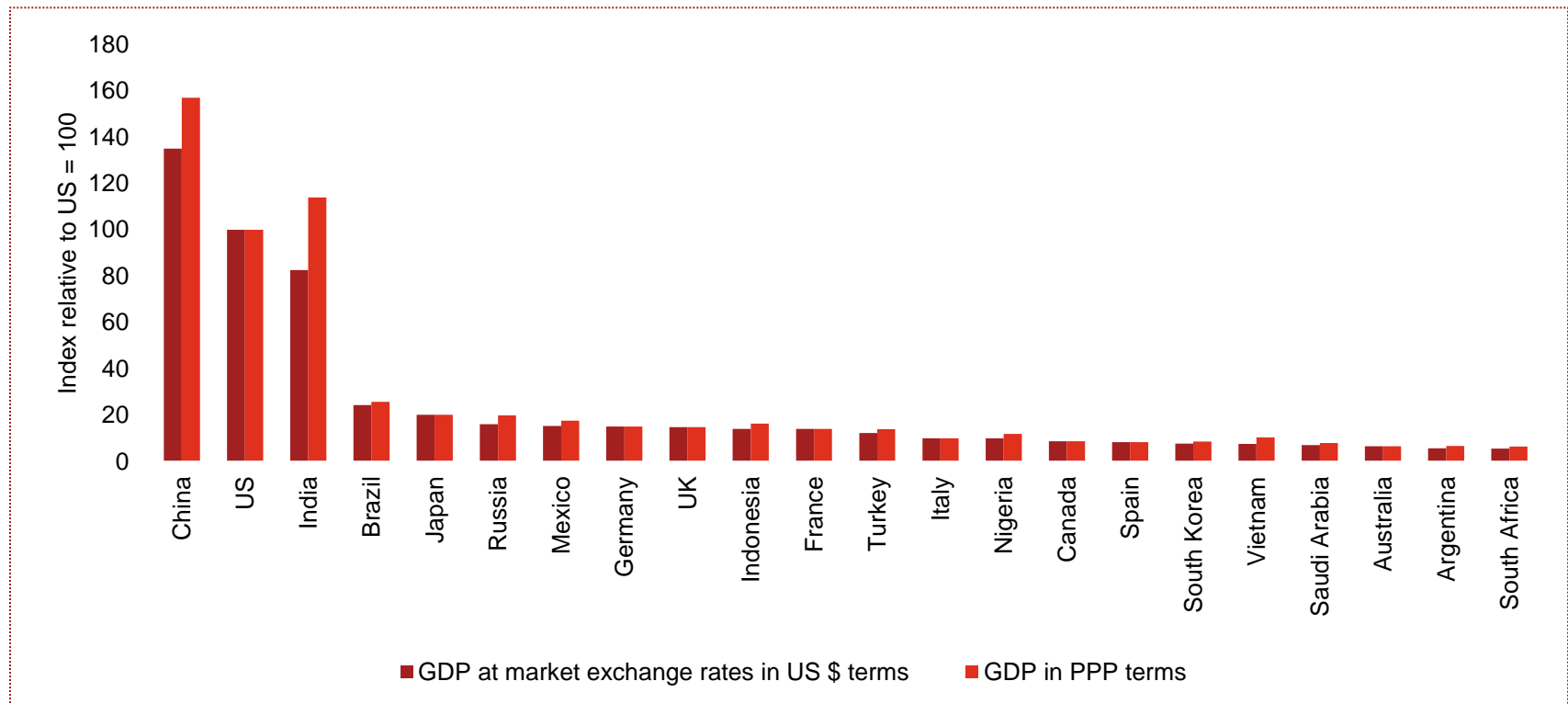
## *Breakdown of components of average real growth in GDP at MERs (2009-50)*



Source: PwC

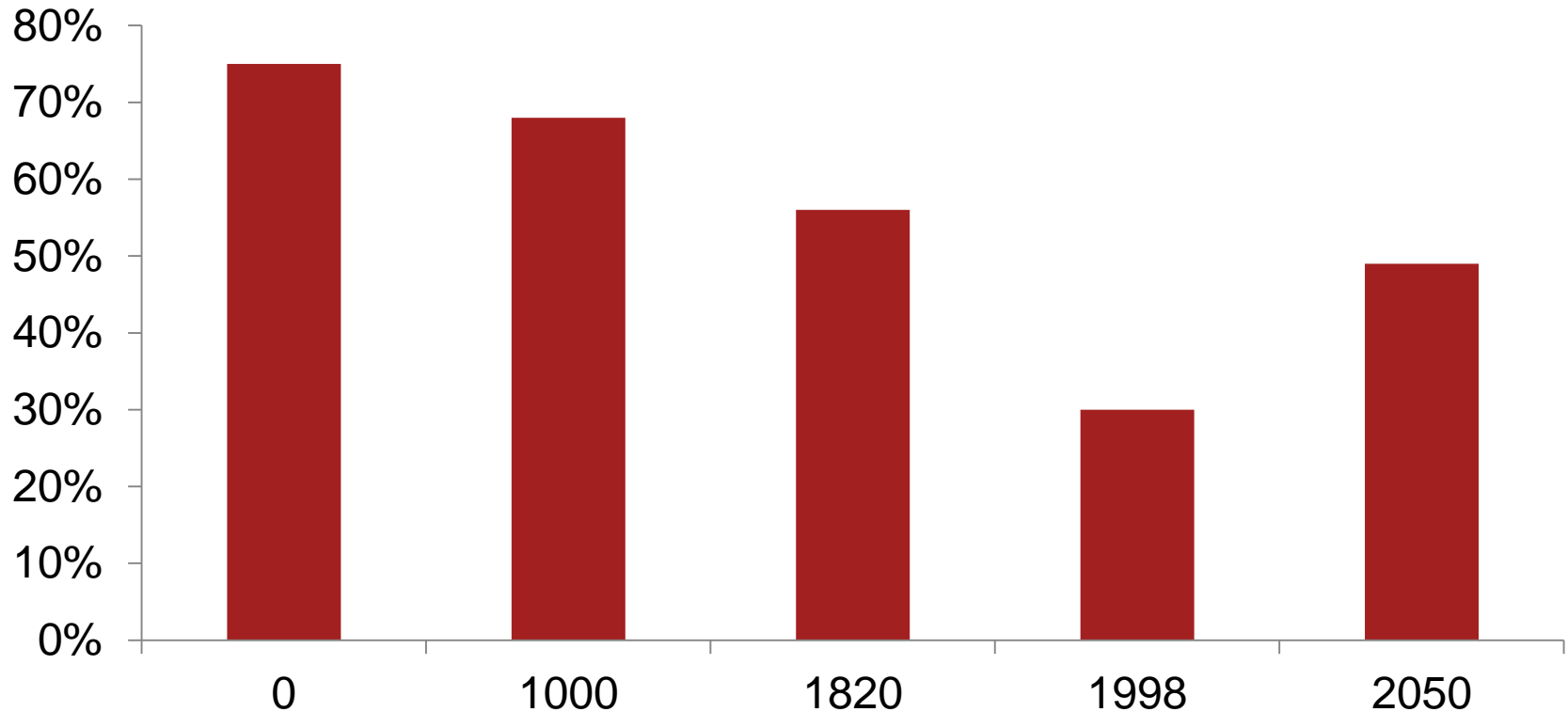
# *By 2050, China, US and India could be by far the largest economies – with Brazil in 4<sup>th</sup> place*

## *Relative GDP at market exchange rates and PPPs (2050)*



Source: PwC

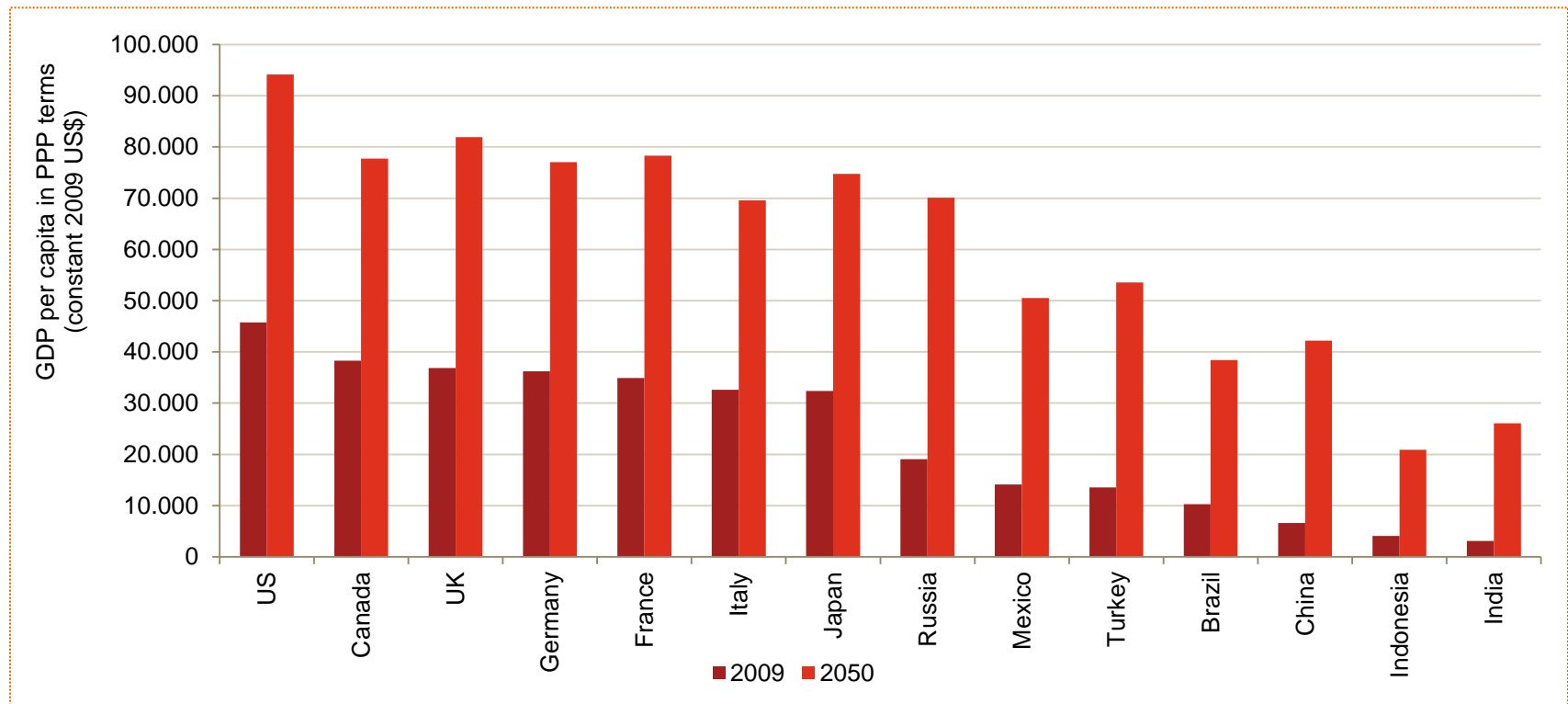
***The rise of emerging Asia can be seen as a return to pre-industrial historic norm (% of world GDP)***



**Source: Maddison (OECD, 2006) for estimates to 1998, PwC projection for 2050**

***But income per capita levels in emerging markets still well below levels in mature markets (though Brazil in 2050 may be similar to Germany today)***

***GDP per capita levels in PPP terms for the G7 and E7 economies***



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# *Key opportunities and challenges for Brazil*



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# *Realising Brazil's long term potential*

## **Key opportunities**

- Relatively young, fast growing labour force
- Growing middle class consumer markets
- Abundant natural resources
- Regional leadership in South America
- Excellent global trading network (notably with China, Europe and the US)

## **Key challenges**

- Volatile commodity prices and exchange rates
- Further improvements in income distribution
- Reduce public spending growth to allow room for lower tax burden and improved fiscal balance
- Boost savings, investment and cost competitiveness

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## *Recap of key points*

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## **Questions?**

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