

The economic landscape in 2009



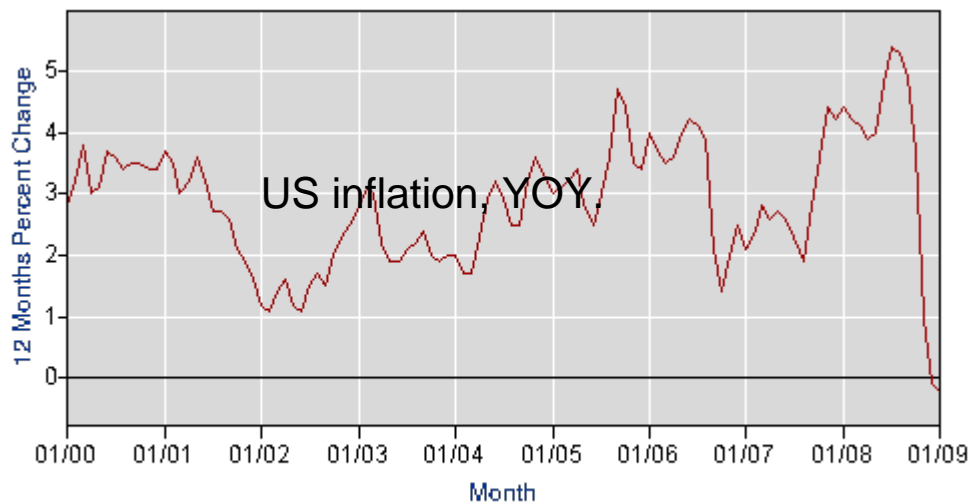
Global and local outlook

Presentation by Mark Crosby
Melbourne Business School

- Developed world outlook
- Emerging world outlook
- Implications for Australia



- Credit markets still glued, and no sign that it will become unstuck soon.
- Deflation is low risk, despite recent falls in inflation.



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- Deflation is low risk.
- Biggest risk is “zombie risk”.
- US banks need to be cleaned up quickly (Korea did the job in two years)



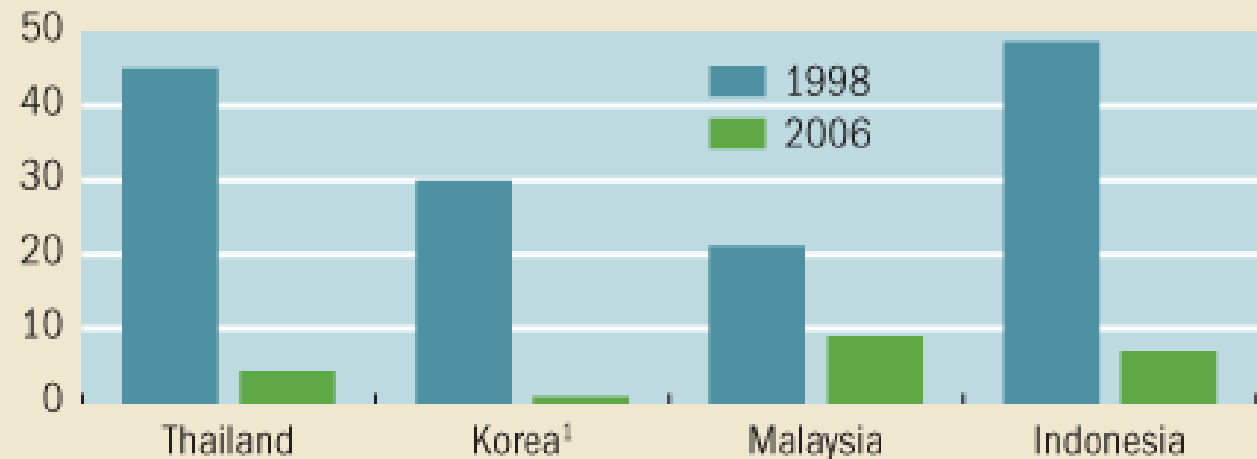
- Korea's cleanup

Chart 3

... and stronger banks

Through vigorous restructuring, nonperforming loans at banks have been brought down to more manageable levels.

(nonperforming loans as percent of total loans)



Sources: CEIC Data Company Ltd.; and the World Bank.

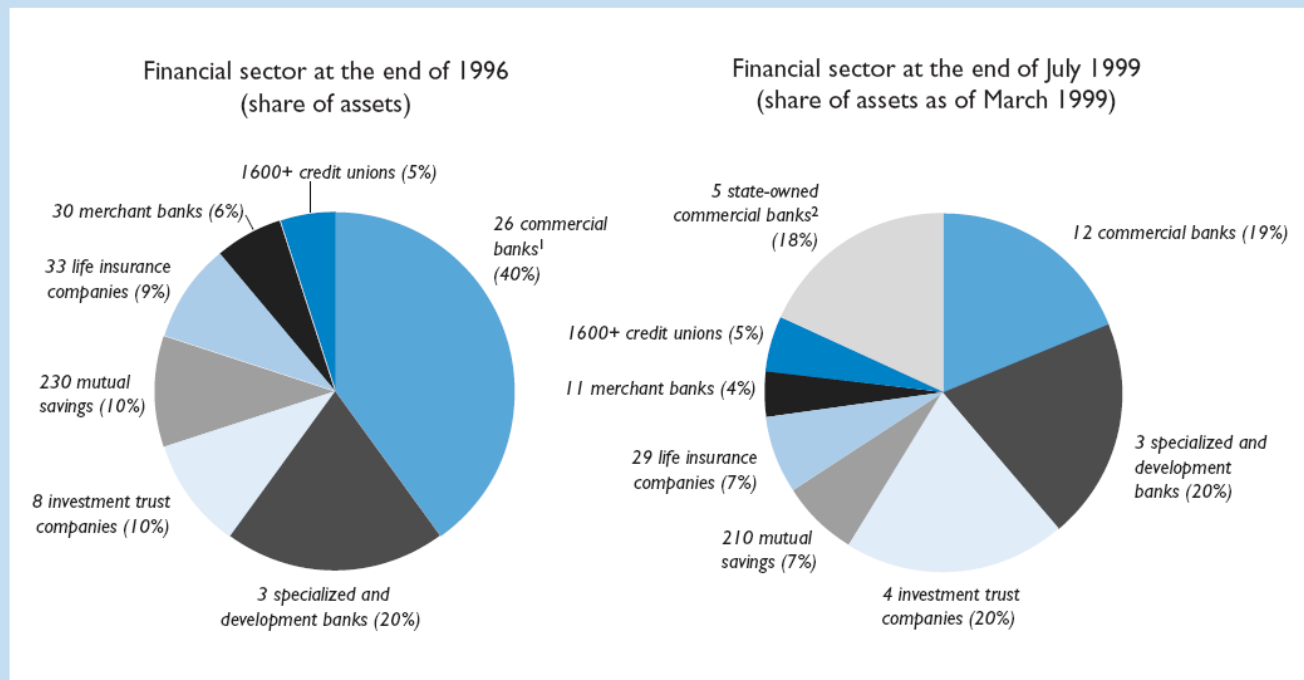
¹1998 World Bank estimate.

Source: IMF



- Korea's cleanup

Figure 10. Korea: Progress in Financial Sector Restructuring



Source: National authorities; and IMF staff estimates.
¹Does not include trust accounts.
²Banks with majority government ownership (Hanvit, Cho Hung, Korea First, and Seoul). Also includes the Bank of Korea-owned Korea Exchange Bank.
 Note: As of the end of July 1999, five commercial banks, 17 merchant banks, four life insurance companies, three investment trust companies, and more than 50 mutual savings and credit unions had been closed. The state had intervened in 11 commercial banks. Four commercial banks and two merchant banks had exited through merger. Categories are not mutually exclusive.

Source: IMF



- Short to medium term outlook in the US is poor
- Housing prices continue to fall, making problems worse.
- But I still think that we can decouple in the sense of recovering more quickly than the US.



- Japan, Germany, France and Italy remain anaemic (but so what?).
 - Reliance on exports, not enough reform have made very vulnerable.
- UK badly hit by financial/credit crisis, and by falling house prices.



- Have been driving global growth...

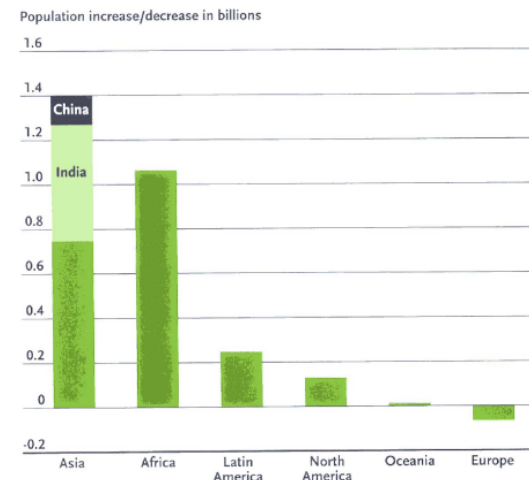


- In the 20th century the economic weight of Europe and the US was out of line with their population share.
- Future weight of US (and Europe) is set to decline steadily...

Projected Population Change by Region, 2005 - 2050

Source: C.Haub, 2005 World Population Data Sheet (2005)

Major Area	Population (millions)			
	1950	1975	2007	2050
World	2,535	4,076	6,671	9,191
Africa	224	416	965	1,998
Asia	1,411	2,394	4,030	5,266
Europe	548	676	731	664
Latin America and the Caribbean	168	325	572	769
Northern America	172	243	339	445
Oceania	13	21	34	49

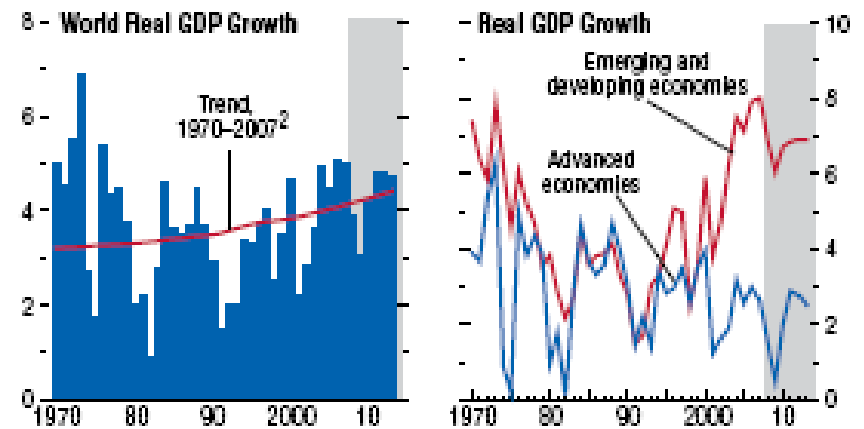


- Emerging markets are (roughly) 50% of global GDP, and still growing strongly.

Figure 1.1. Global Indicators¹

(Annual percent change unless otherwise noted)

After four years of strong growth, the global economy is heading into a major downturn, led by the advanced economies. At the same time, inflation has risen to its highest rates in a decade, pushed up by a surge in commodity prices.



Source: IMF

Emerging markets

- Short term challenges
 - Export collapse
 - Exchange rate falls
 - Commodity price falls
 - Maintaining social and political stability

Source: The Economist



- Major hit from exchange rate and export fall, but expected to avoid recession this year
(1.8% IMF growth forecast)



- Terrible shape
 - Reform has been going backwards under Putin
 - Weakened by commodity price falls
 - Trying to manage exchange rate devaluation by tightening monetary policy
 - Too many banks and NPLs very high (10-20%)
 - Inflation at 13%.
 - Contraction of 0.7% expected this year (IMF).



- Still quite a closed economy, so less impacted by global export collapse.
- Inflation has risen to 9.7%, and the public finances are in bad shape.
- Growth expected to fall to 5.1% (IMF).

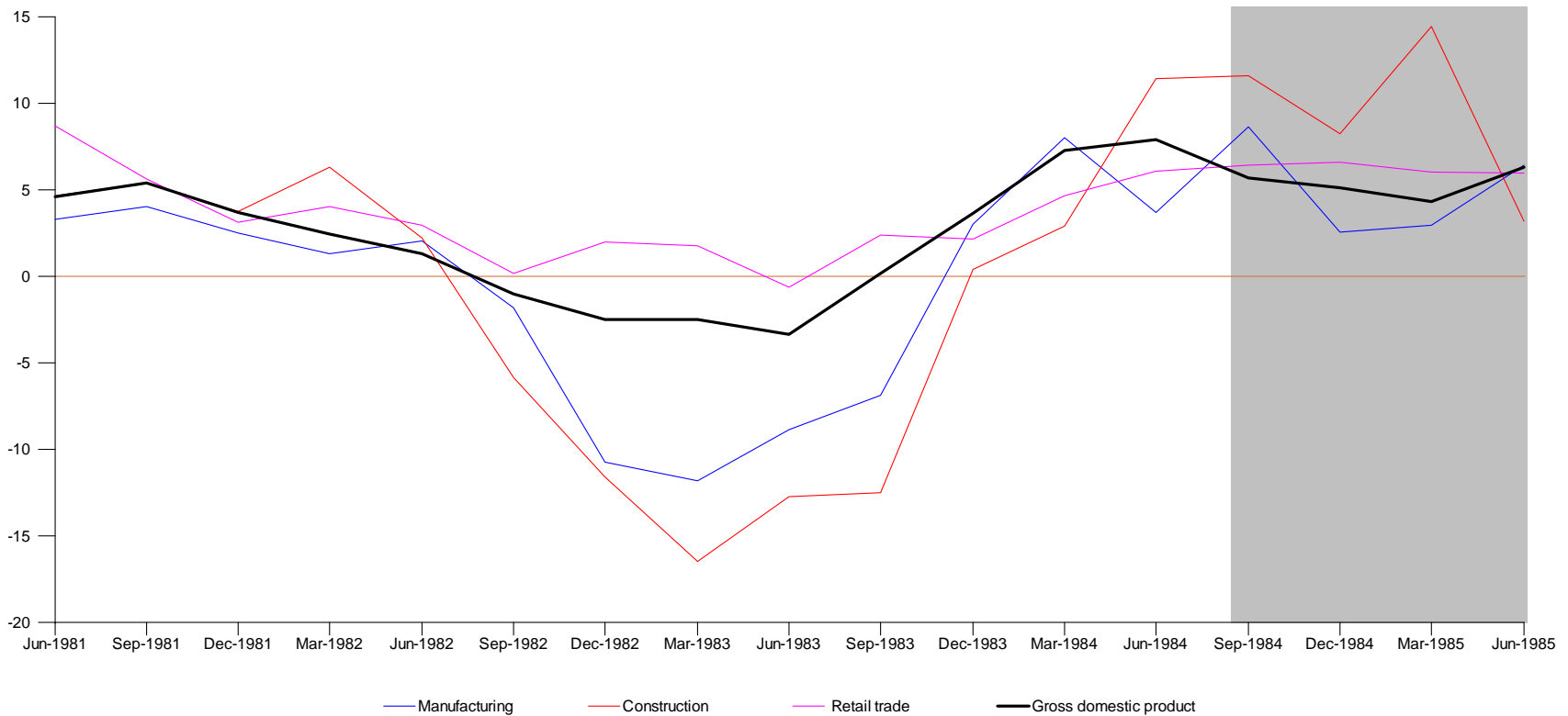


- Major challenge is decline in exports. Value added in exports is much less than the export share (18% cf 36%)
- IMF growth forecast is 6.7%, some reasons to think that this is too pessimistic, though also reasons to worry.



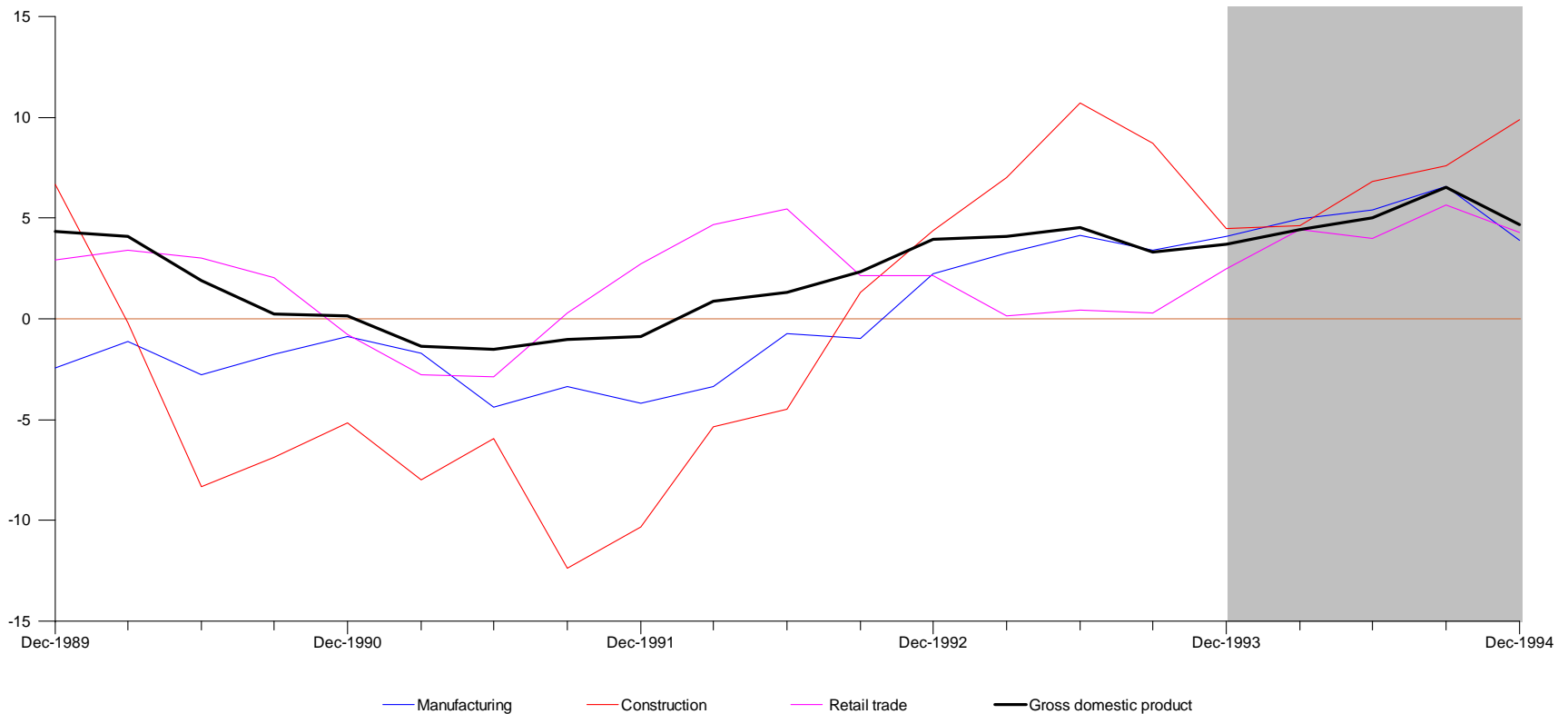
Implications – the 1981 recession

1981 recession: Constuction, Manufacturing and Retail trade.
YOY % change



Implications – the 1989 recession

1989 recession: Constuction, Manufacturing and Retail trade.
YOY % change



- Optimism
 - Australia can recover faster than the US. Banks sound, less zombies.
- Pessimism
 - Global outlook likely to remain weak at least until the end of '09.
 - Outcomes in China matter a lot.
- RBA still not doing enough given uncertainty.
- An ETS will speed up the elimination of Australia's carbon intensive zombies.