

Update on the International Economic Outlook

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Presented by Charles W. (Chuck) Clowdis
Managing Director – Global Trade & Transportation
IHS Economics & Country Risk

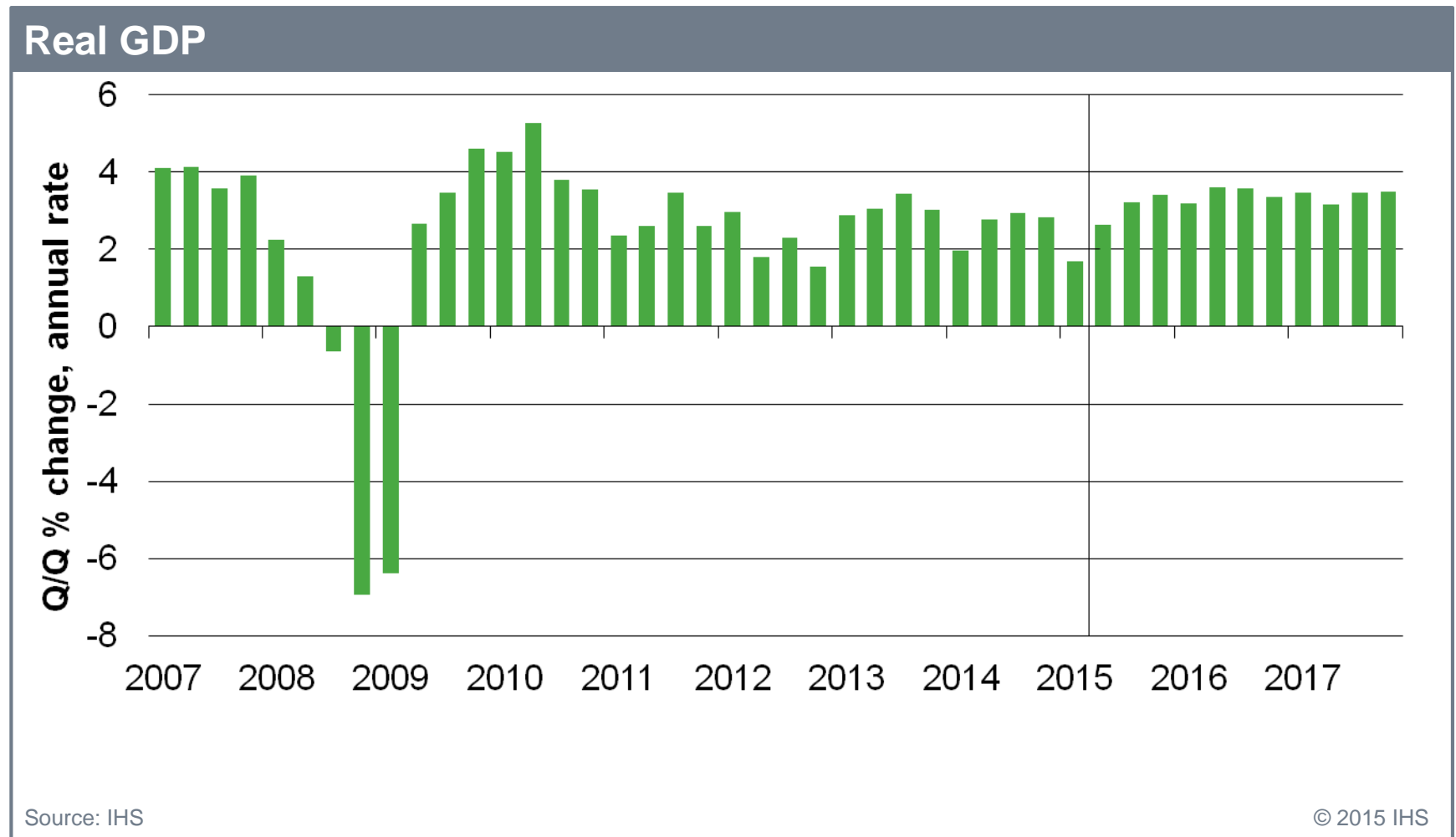


A gradual acceleration in the global economy

- World real GDP growth will pick up from 2.6% in 2015 to 3.3% in 2016.
- Consumer spending and homebuilding will lead a US acceleration.
- Recoveries in the Eurozone and Japan will gain momentum, aided by monetary stimulus, currency depreciation, and pent-up demand.
- China's growth will slow in 2015 and 2016, restrained by imbalances in credit, housing, and industrial markets.
- Several emerging markets are in recession this year—Russia, Venezuela, Argentina, and Brazil.
- Growth paths in emerging markets will depend on structural reforms that raise productivity and allocate capital more efficiently.

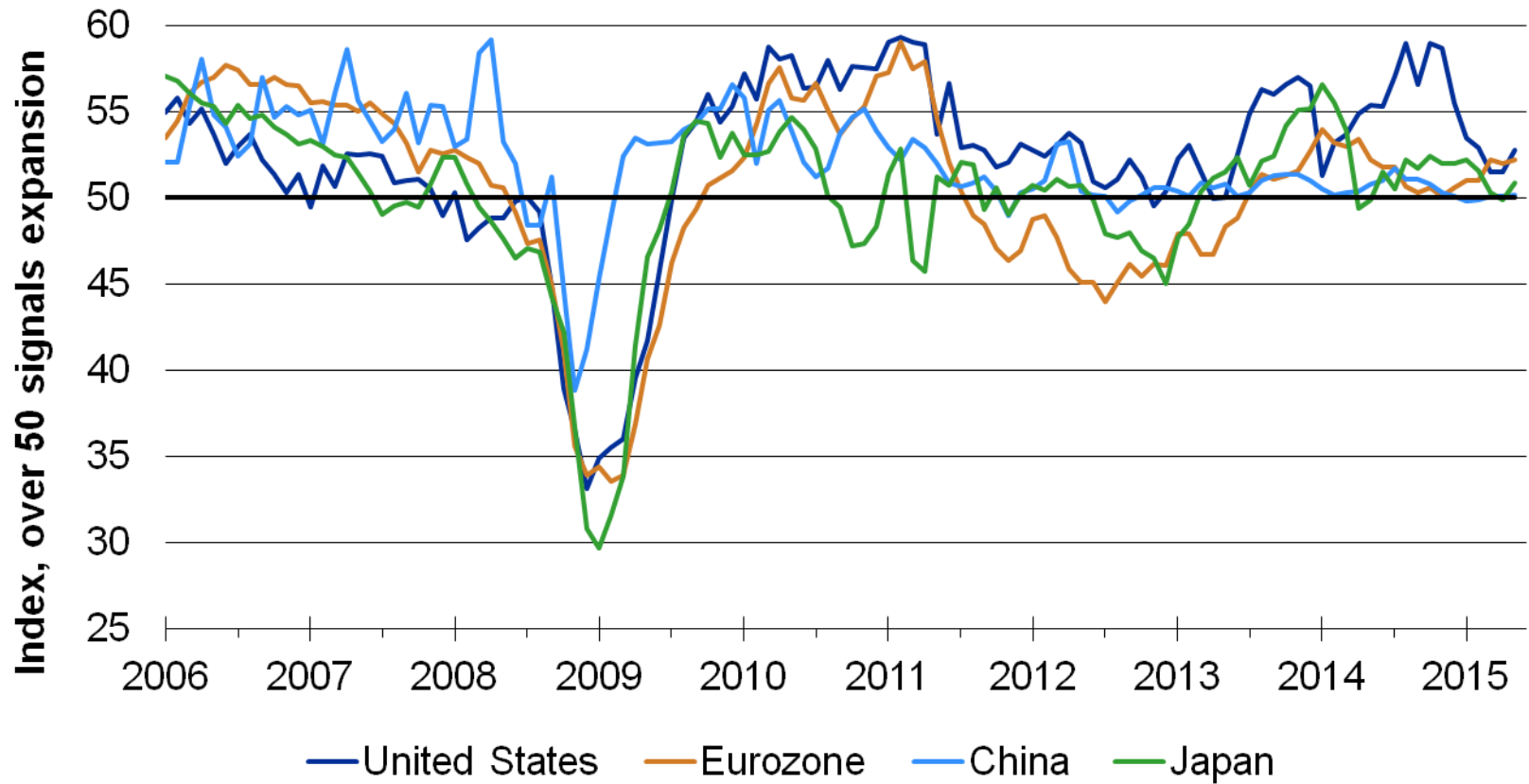


After a weak start in 2015, global real GDP growth will move up to the 3.0–3.5% range



Purchasing managers' indexes for manufacturing are signaling modest growth

Purchasing managers' indexes



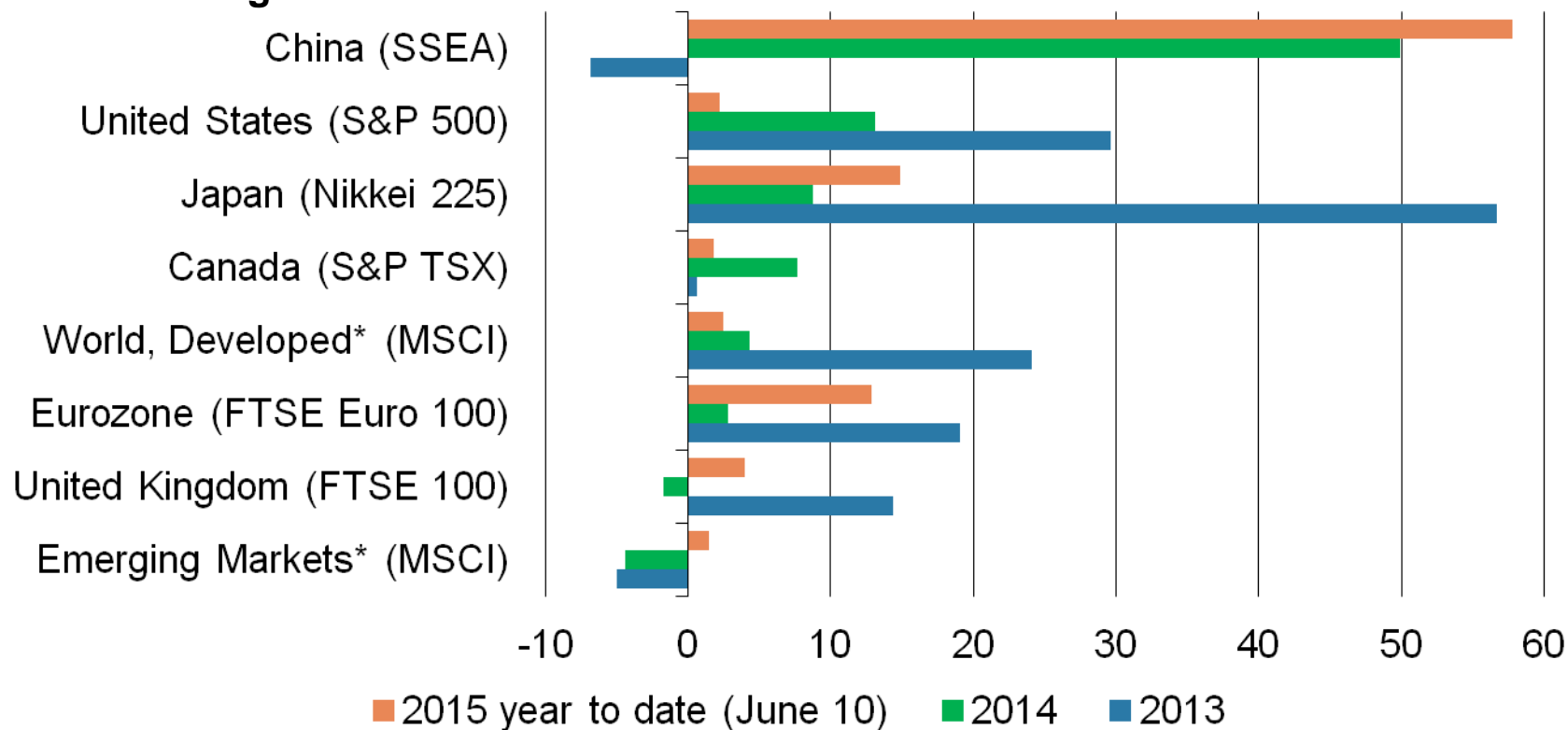
Sources: Institute for Supply Management (US), Markit, National Bureau of Statistics (China)

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China's stock market gains are exceptional

Equity prices

Percent change

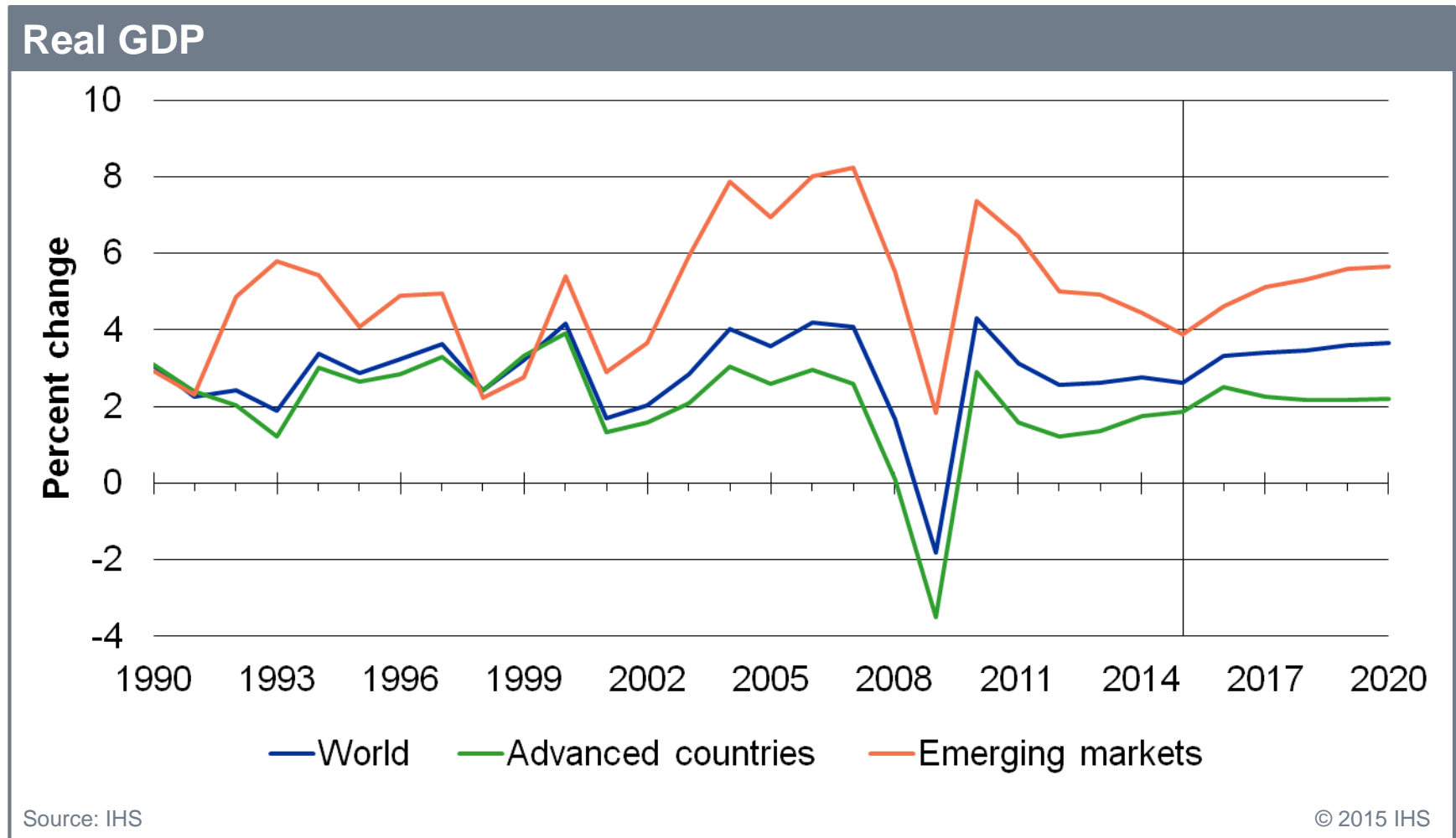


* In US dollars

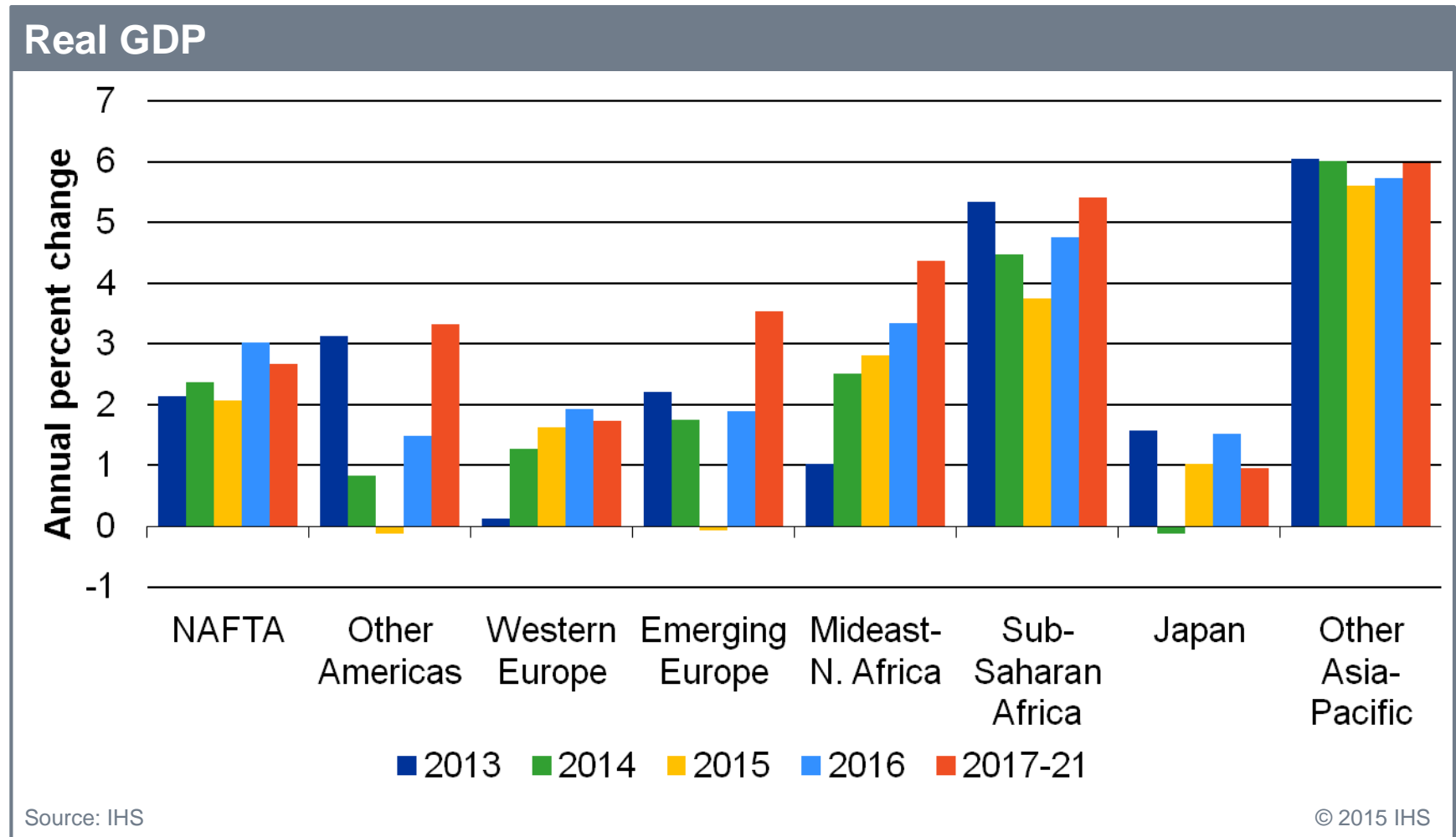
Source: *The Economist*

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Global real GDP growth will pick up in 2016–17

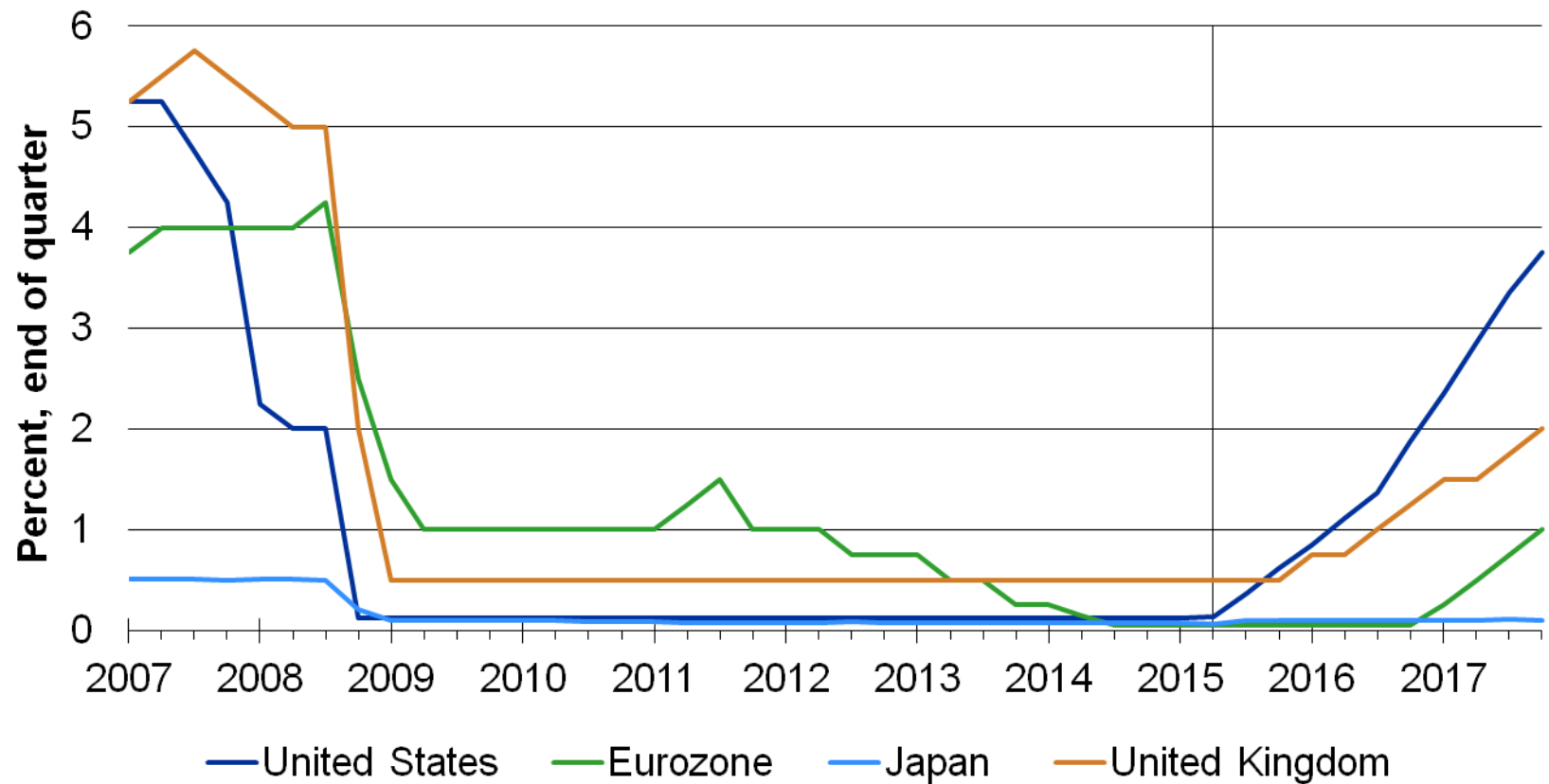


Asia-Pacific (excluding Japan) and Sub-Saharan Africa will achieve the fastest growth in real GDP



The US Federal Reserve will lead in raising policy interest rates, followed by the Bank of England

Policy interest rates

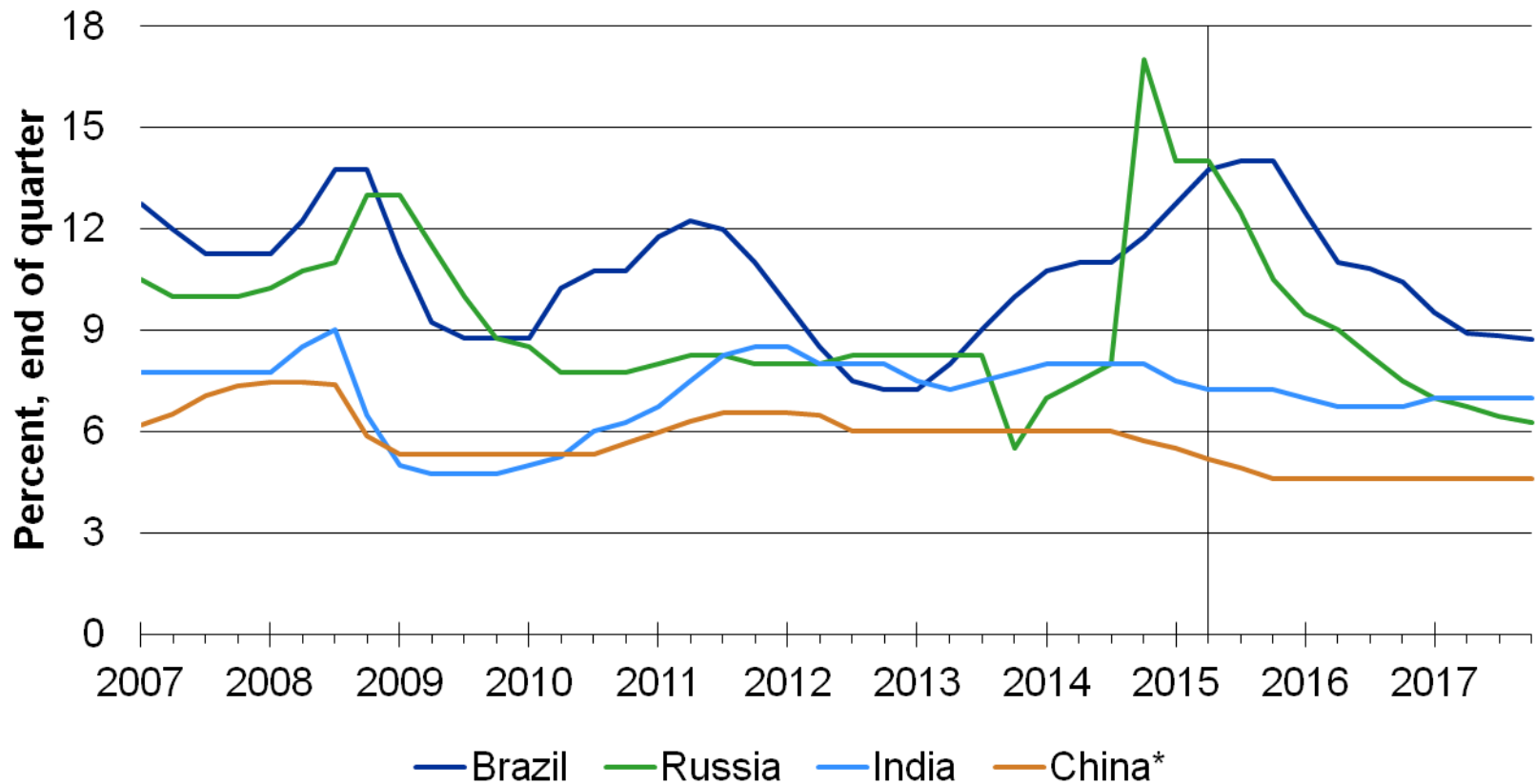


Source: IHS

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Policy interest rates in key emerging markets respond to inflation and exchange rate pressures

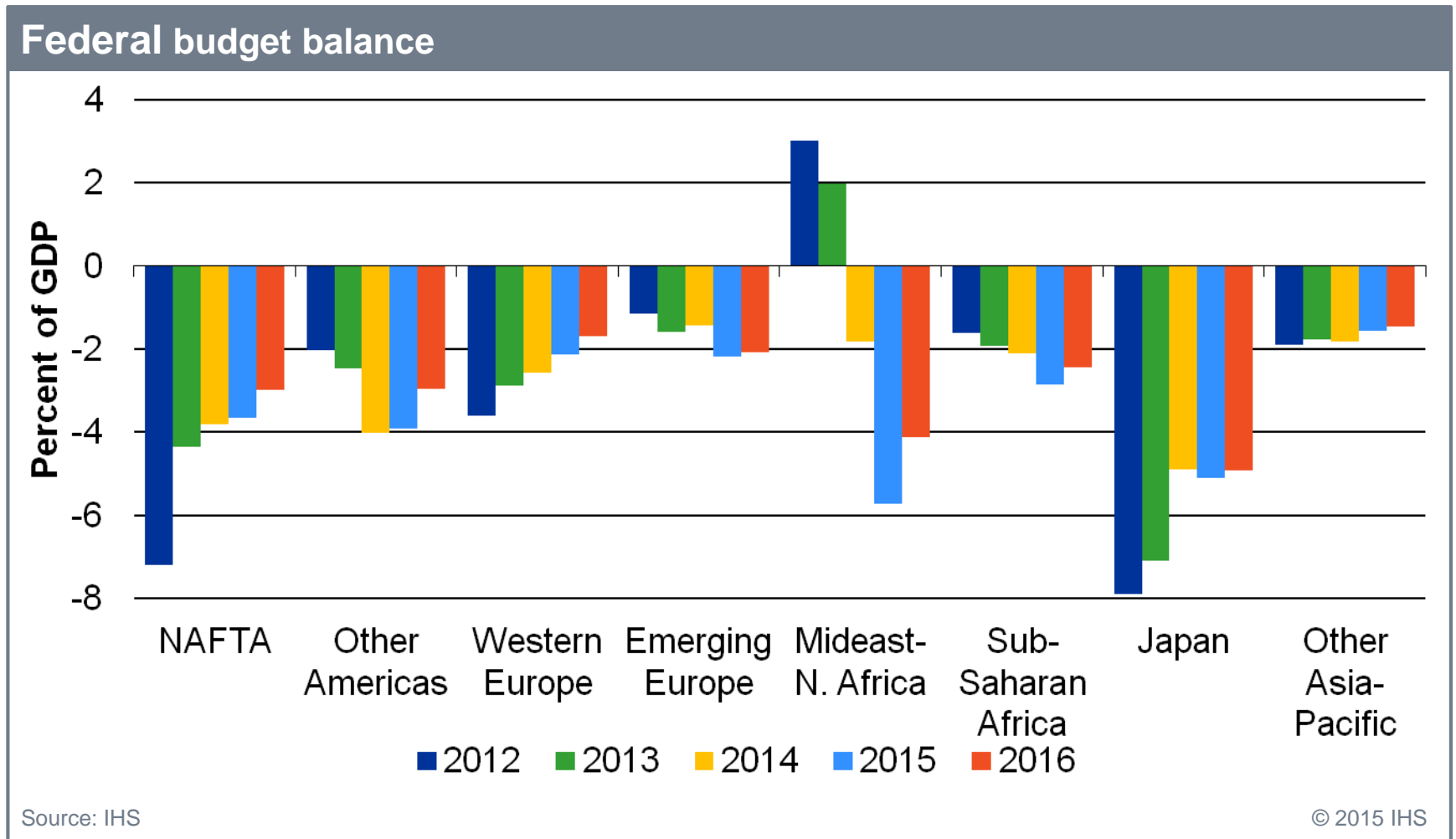
Policy interest rates



* One-year loan rate
Source: IHS

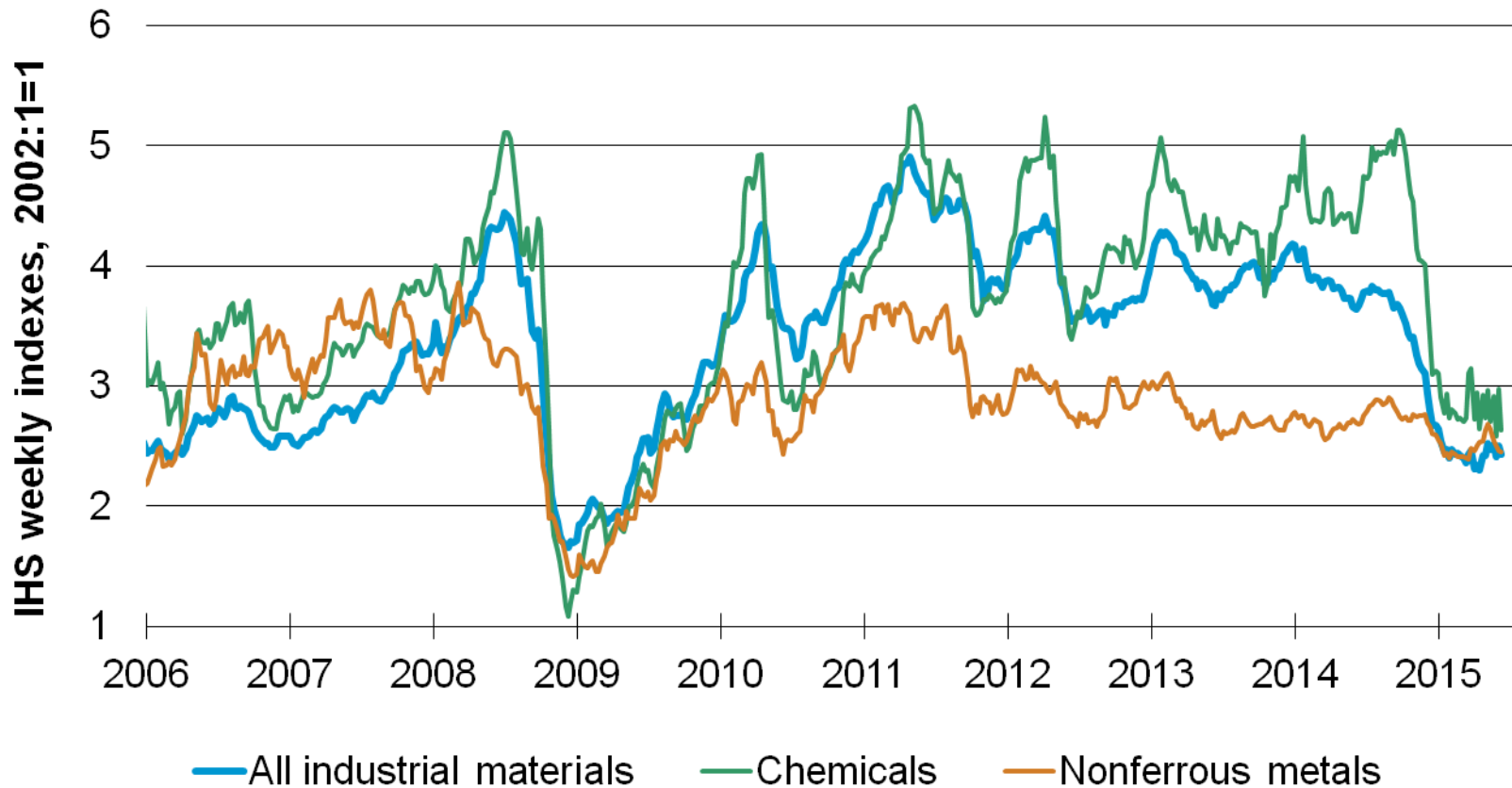
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Government budgets are in deficit in all regions



Industrial materials prices have stopped falling

Industrial materials prices



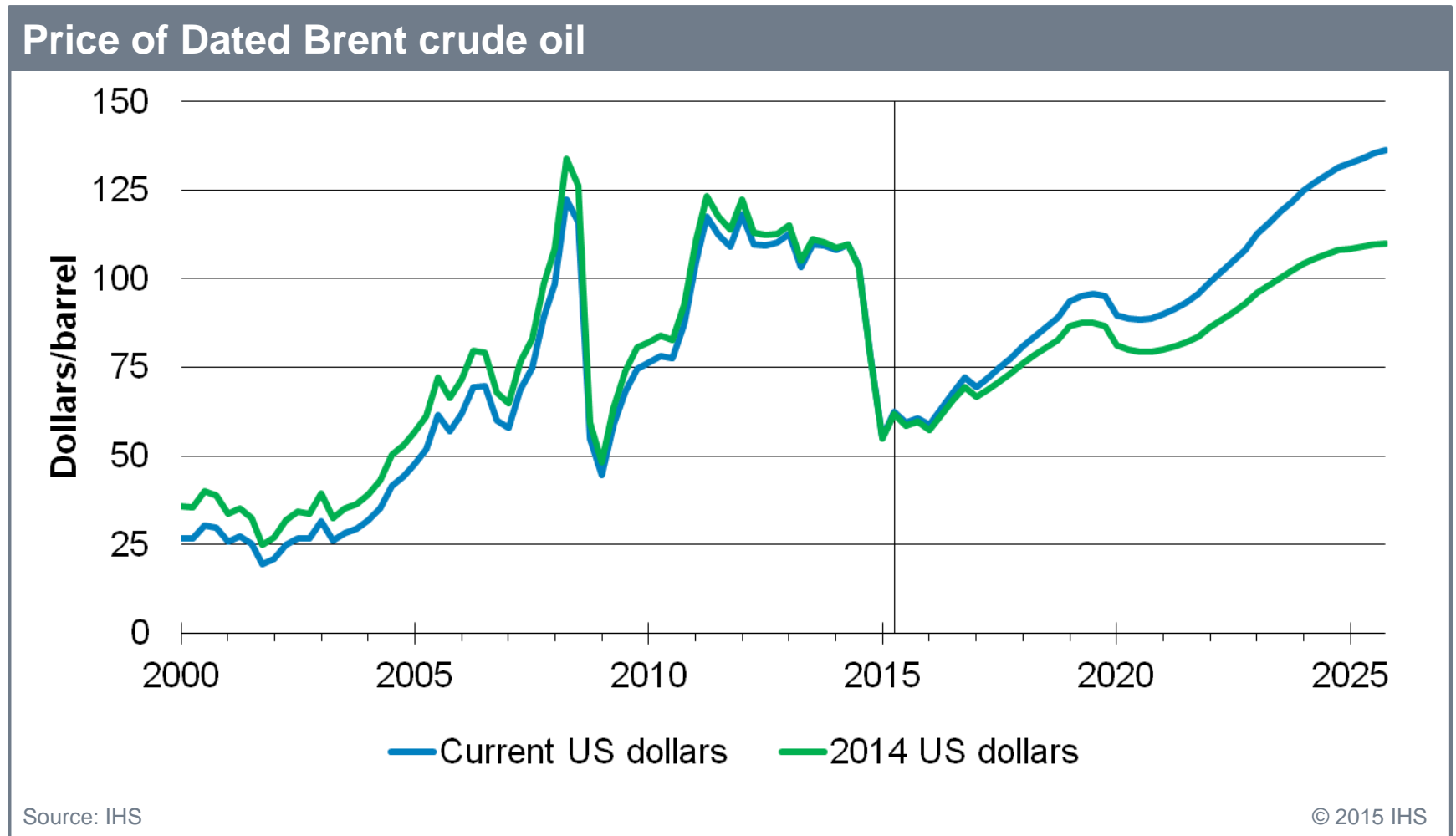
Source: IHS

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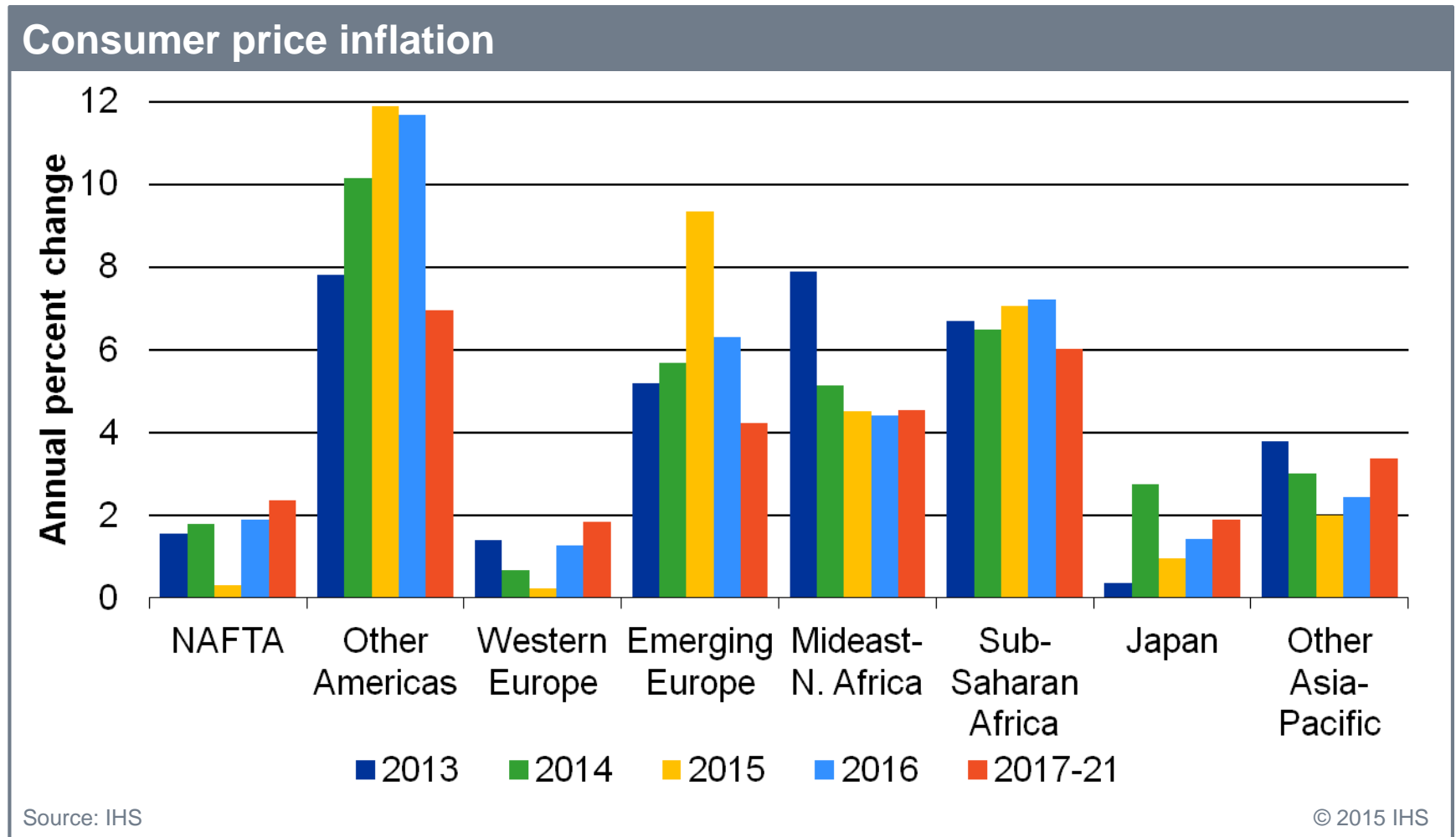
Oil prices have firmed despite oversupply

- The price of Dated Brent has held in a tight USD62–68/barrel range for the last two months.
- Markets remain oversupplied; global stock building is absorbing excess production.
- As expected, OPEC extended its output target of 30 million barrels per day through 2015. Current production is 31.1 million barrels per day.
- Global demand has picked up in 2015, particularly in Asia.
- Forecasts of both supply and demand have been revised upward, leaving our price forecast intact.
- An agreement with Iran that relaxes sanctions represents a significant downside risk to oil prices.

Crude oil prices will gradually recover

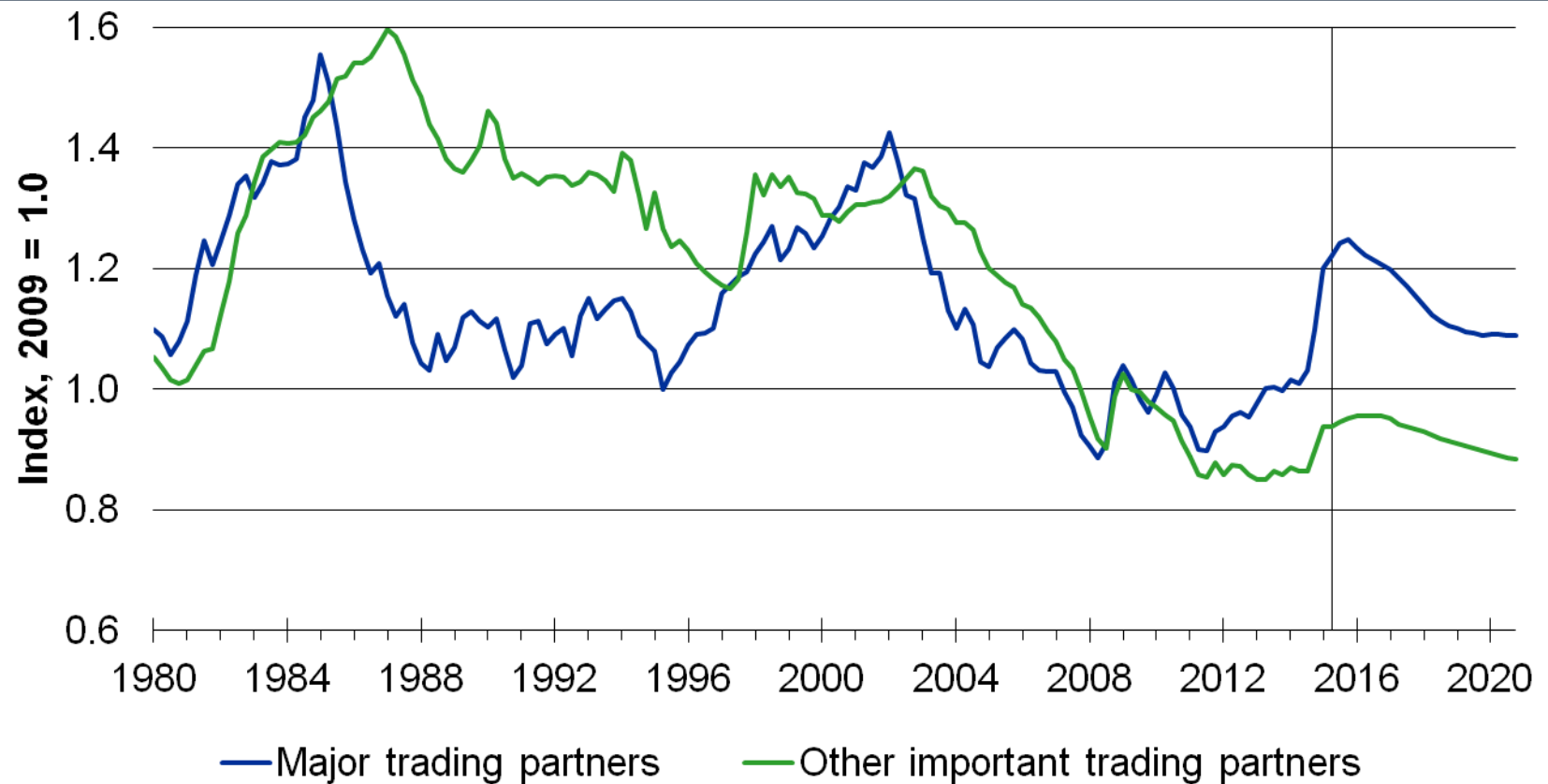


Consumer price inflation varies widely by region



The dollar's real exchange value is appreciating, reaching a 12-year high against major currencies

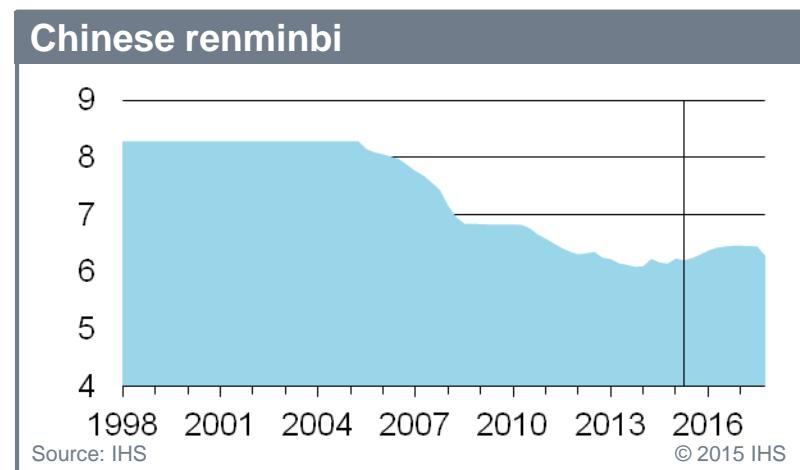
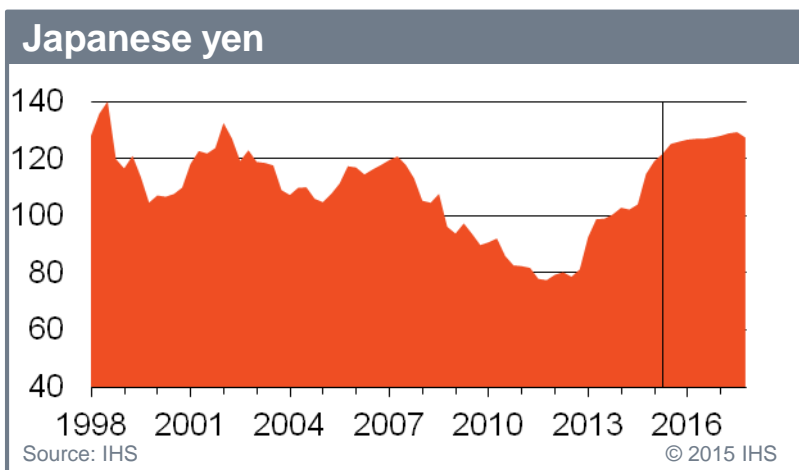
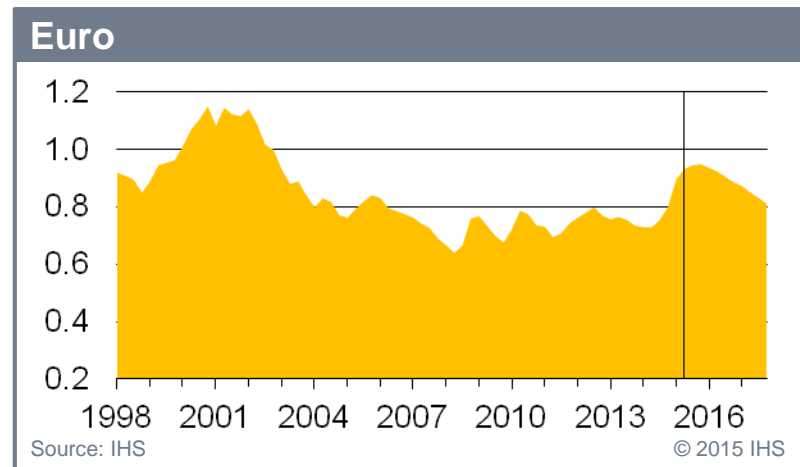
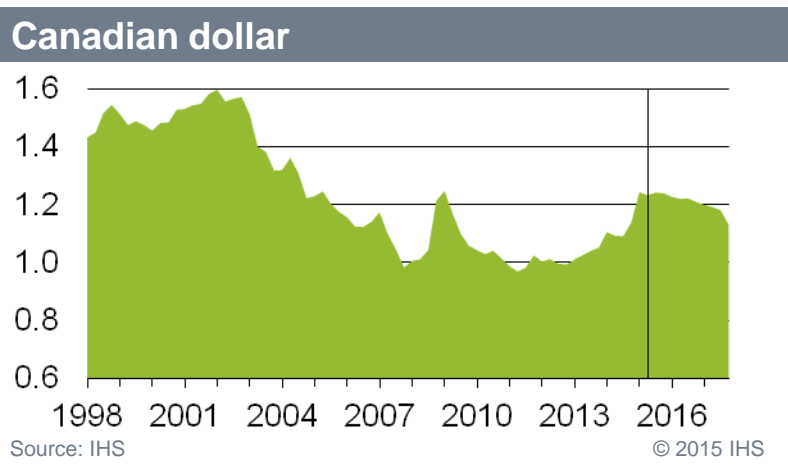
Real trade-weighted dollar index



Source: IHS

© 2015 IHS

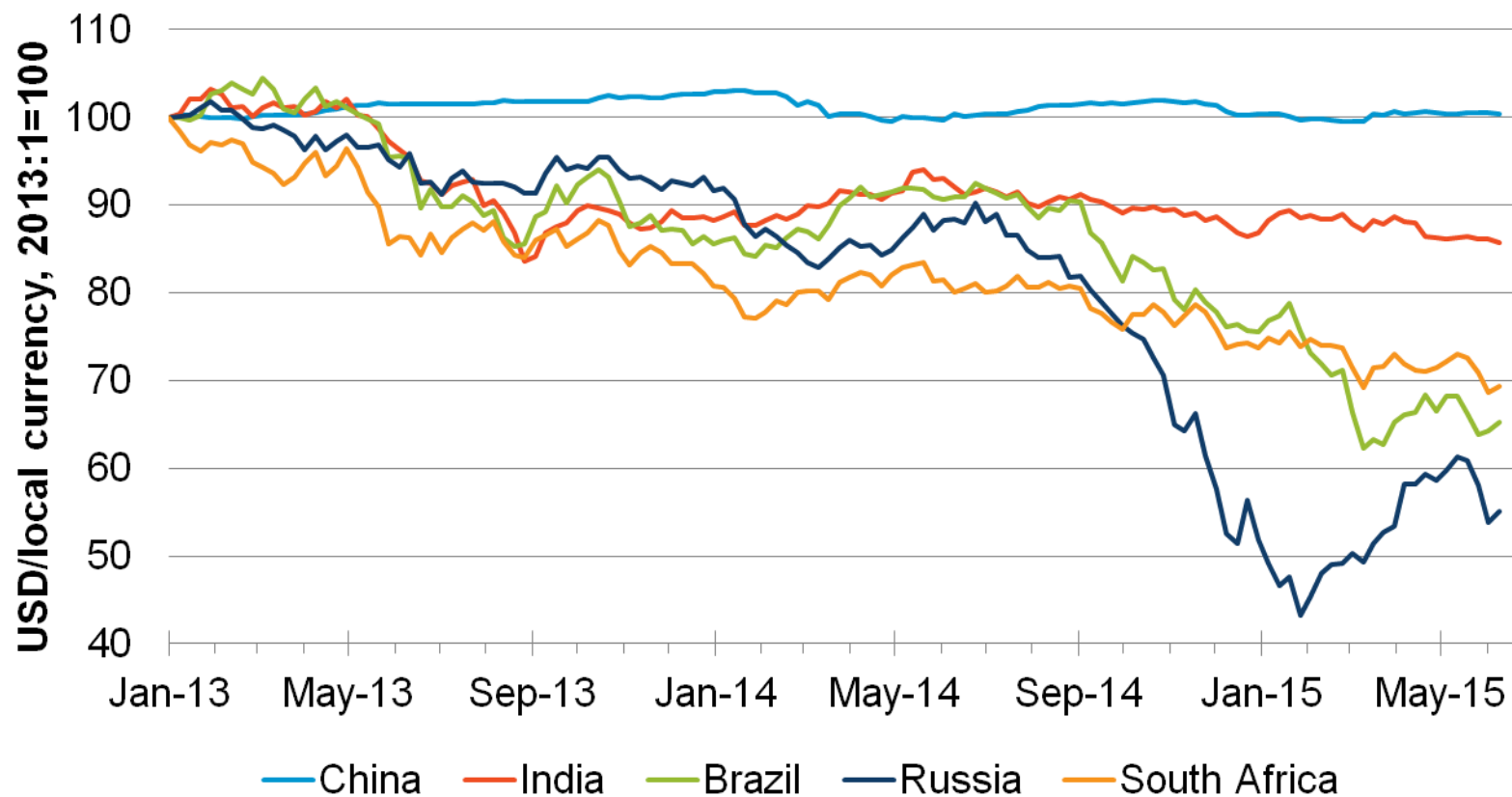
Exchange rates per US dollar



Quarterly averages

Some major emerging-market currencies have depreciated over the past two years

Weekly exchange rate index



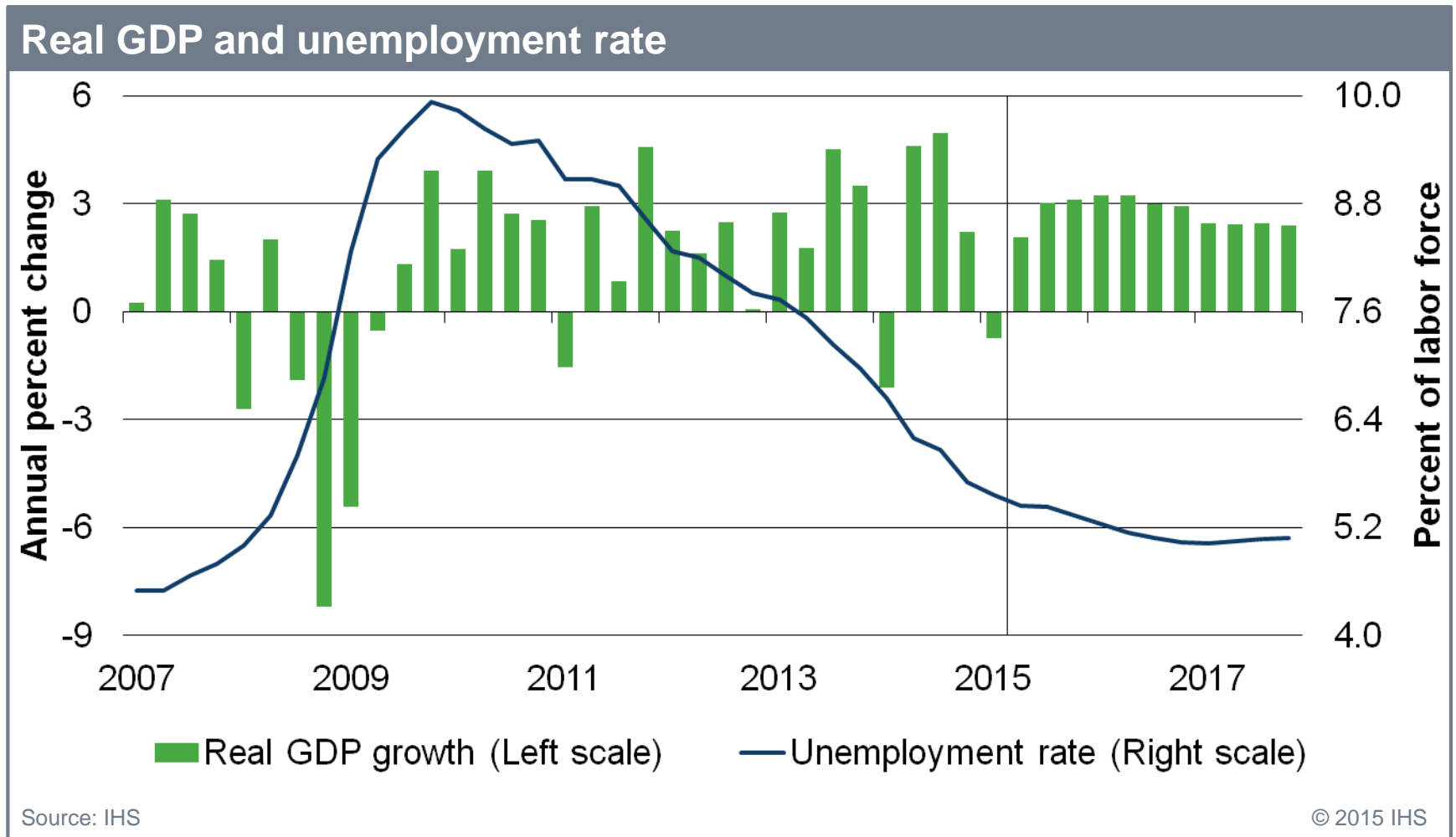
Source: IHS

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The US economic expansion will continue

- Several forces stalled the economy in the first quarter—harsh weather, West Coast port disruptions, and the plunge in oil and gas drilling.
- Growth is resuming in the second quarter, as a pickup in consumer spending overshadows a slowdown in inventory investment.
- Consumer spending is supported by solid gains in employment, purchasing power, and net worth.
- Housing markets will slowly recover in response to rising employment and easing credit standards.
- Business investment in equipment, software, and commercial structures will post robust growth.
- Interest rates will increase from late 2015 through 2017 as monetary accommodation is gradually withdrawn.

US real GDP growth and the unemployment rate

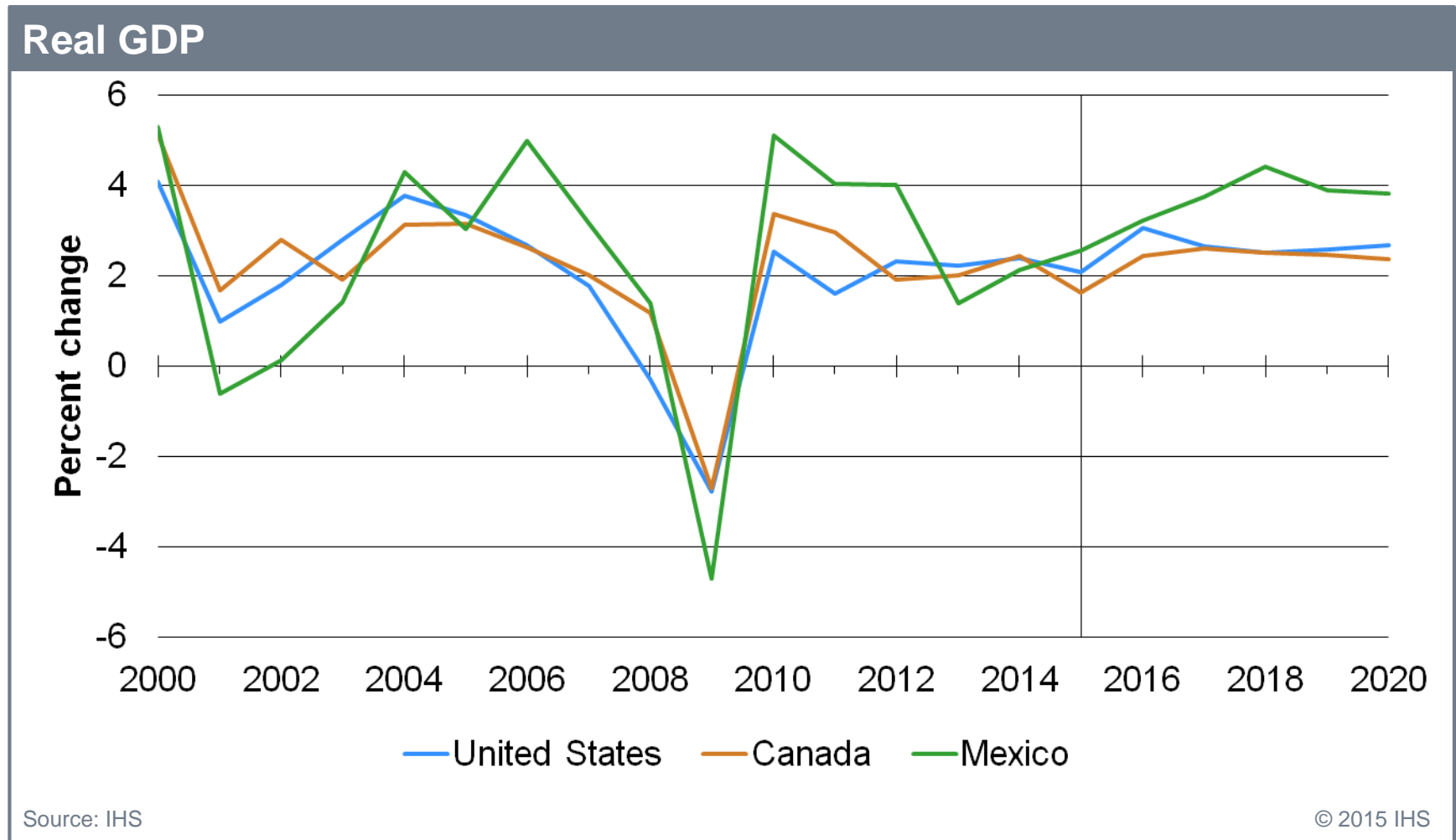


US economic growth by sector

Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	2.4	2.1	3.1	2.6
Consumption	2.5	2.8	2.9	2.8
Residential investment	1.6	8.3	12.9	8.6
Business fixed investment	6.3	3.4	6.6	5.5
Federal government	-1.9	0.5	0.2	-0.8
State & local government	1.0	1.0	1.1	0.9
Exports	3.2	1.6	4.9	4.8
Imports	4.0	5.5	6.4	5.7

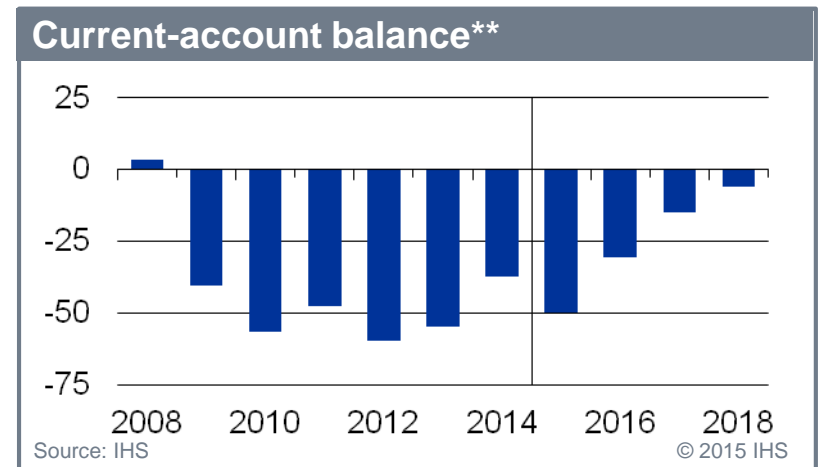
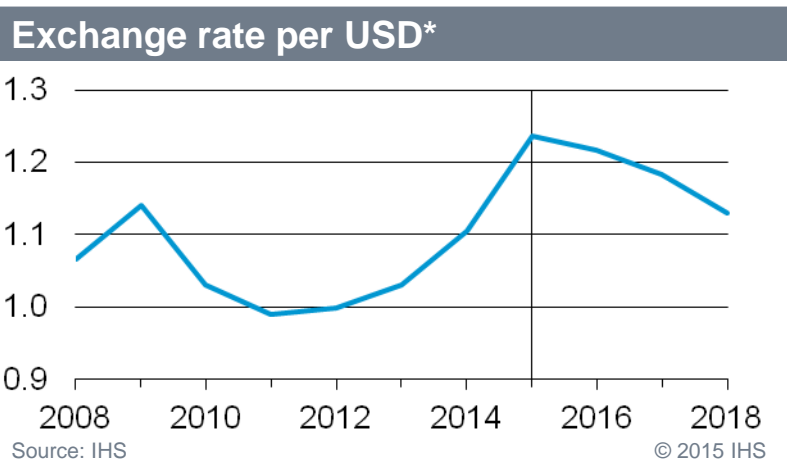
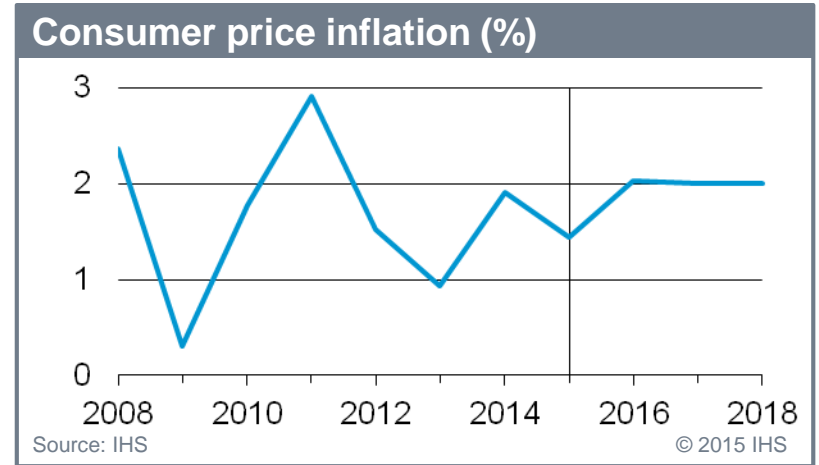
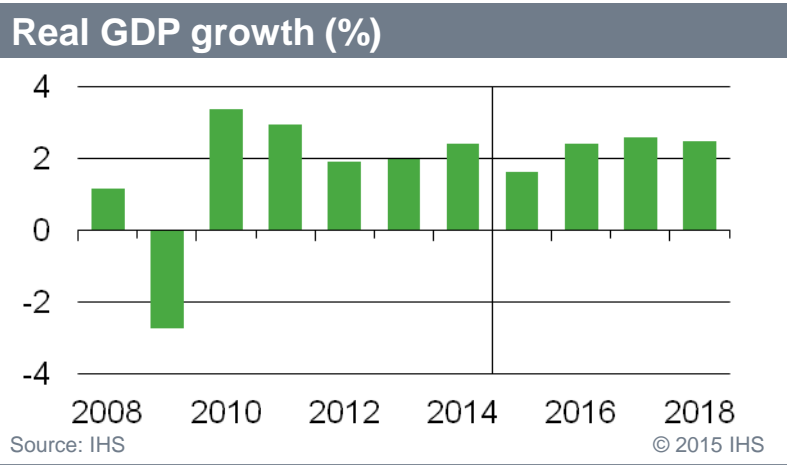
North American business cycles are synchronized



Canada's growth will be led by consumer spending and exports, as energy-related investment retreats

- Real GDP declined at a 0.6% annual rate in the first quarter, held back by adverse weather and a plunge in oil industry investment.
- Low oil prices are adversely affecting Alberta, Saskatchewan, and Newfoundland. Ontario and Quebec are benefiting from gains in consumer purchasing power and export competitiveness.
- Consumer spending will be supported by increases in real disposable income, but restrained by rising debt burdens.
- The Bank of Canada is expected to keep its policy rate to 0.75% through mid-2016 before tightening monetary policy.
- The Canadian dollar will slowly recover, along with commodity prices.

Canada outlook summary



*Annual average, **Billions of US dollars

Canada's economic growth by sector

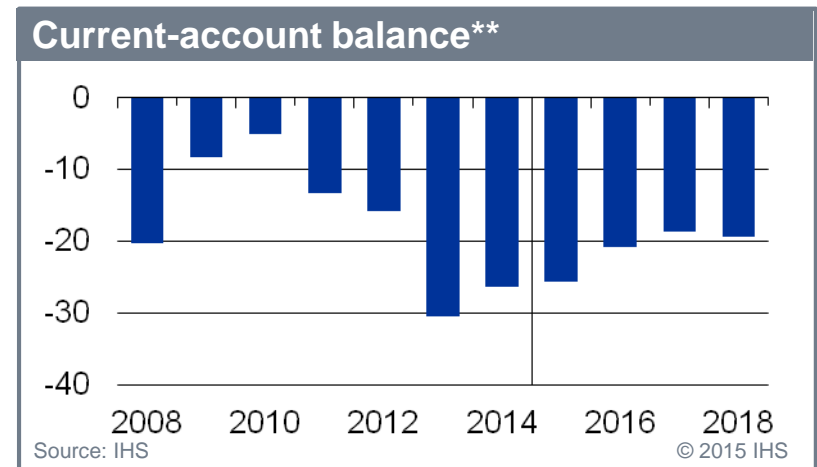
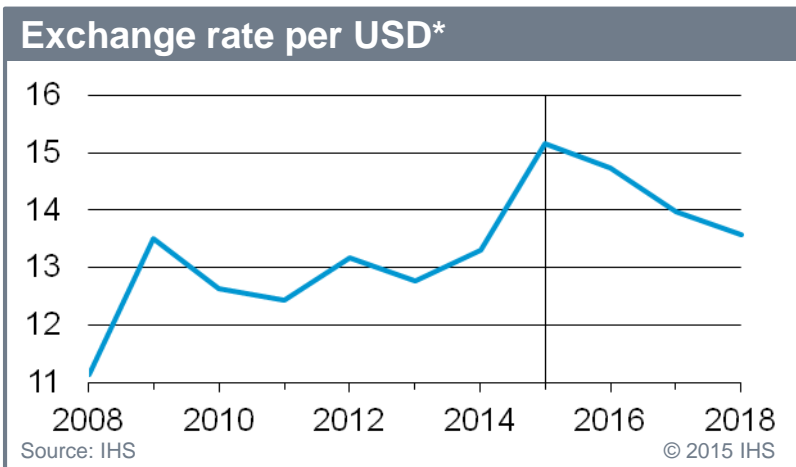
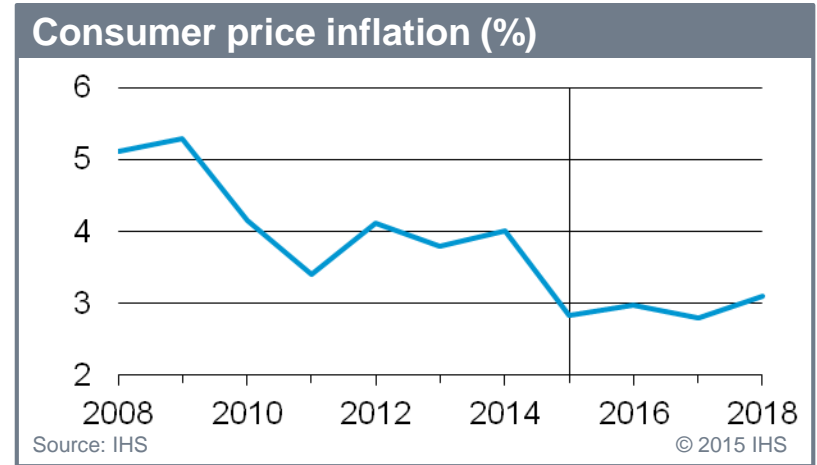
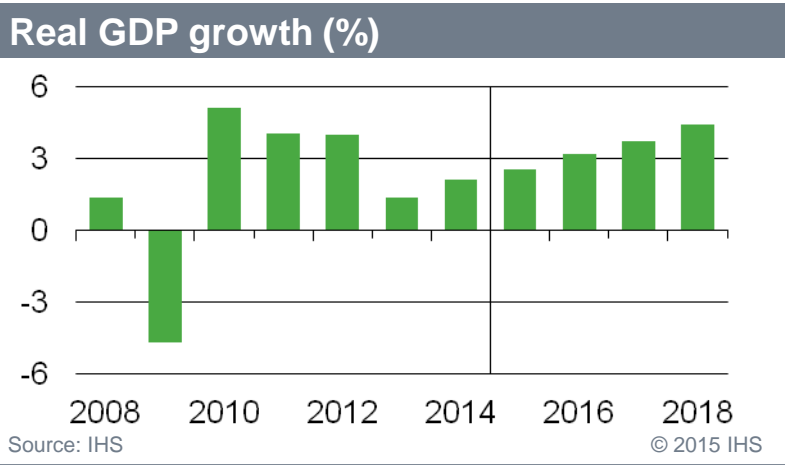
Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	2.4	1.6	2.4	2.6
Consumption	2.7	1.9	2.3	2.3
Residential investment	2.7	1.3	-1.2	0.9
Business fixed investment	0.2	-6.1	-1.1	3.1
Government consumption	0.2	0.7	2.0	1.8
Exports	5.4	3.5	5.7	5.3
Imports	1.8	0.8	2.6	4.2

Mexico's economy will slowly accelerate

- Mexico will benefit from solid growth in the US economy through trade, capital inflows, and remittances.
- Fiscal stimulus is ending in 2015, although the lagged effects of previous spending on public infrastructure will support growth.
- Constitutional changes will open Mexico's oil and gas industries to foreign investment and eventually reverse the decline in oil production.
- Global automakers are investing in substantial new capacity in Mexico; Toyota will build a new plant in Guanajuato.
- Security risks and corruption scandals are taking a toll on business sentiment and investment.

Mexico outlook summary



*Annual average, **Billions of US dollars

Mexico's economic growth by sector

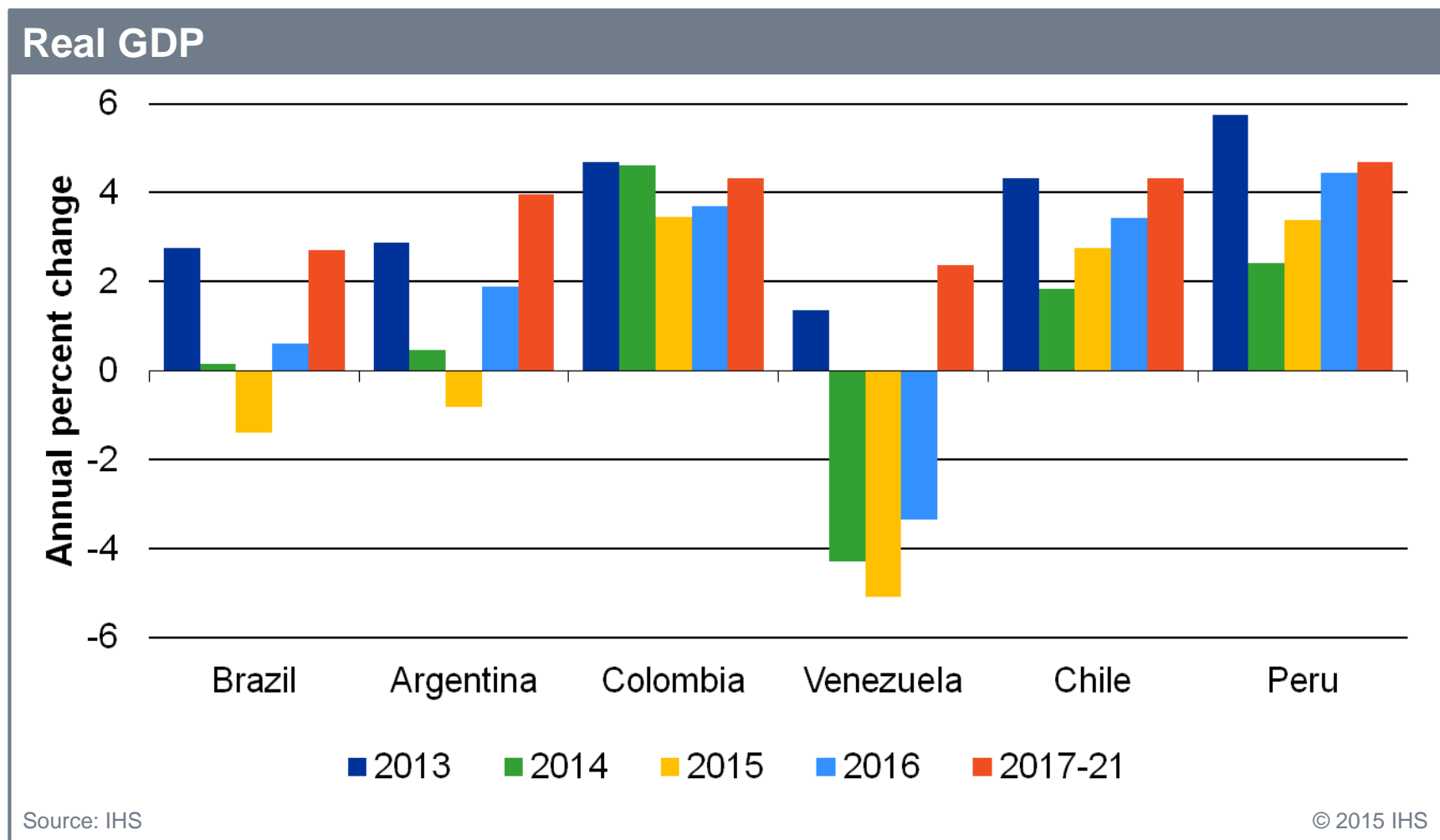
Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	2.1	2.6	3.2	3.8
Private consumption	2.0	2.6	3.1	3.5
Fixed investment	2.3	3.4	3.5	4.4
Government consumption	2.5	1.5	1.8	3.7
Exports	7.3	5.9	5.3	5.7
Imports	5.7	5.1	4.6	5.4

South America: Deteriorating investment climates

- The region's economic growth has slowed; Argentina, Venezuela, and Brazil are in recession.
- Falling commodity prices are hurting export income.
- In Argentina, high inflation, fragile public finances, foreign-exchange controls, and import barriers are obstacles to growth.
- Venezuela faces a long and deep recession with falling oil revenues, product shortages, hyperinflation, and soaring debt-servicing costs.
- Resource development will support growth in Colombia and Peru.
- The region's long-term challenges include inadequate infrastructure, restrictive business environments, and income inequality.

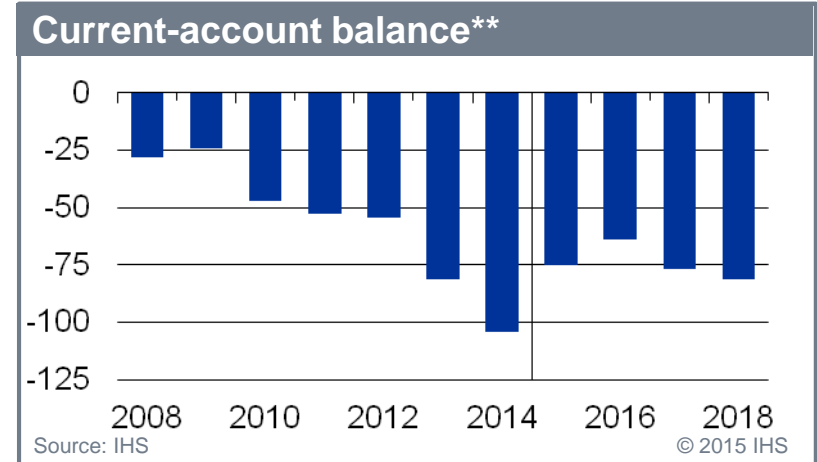
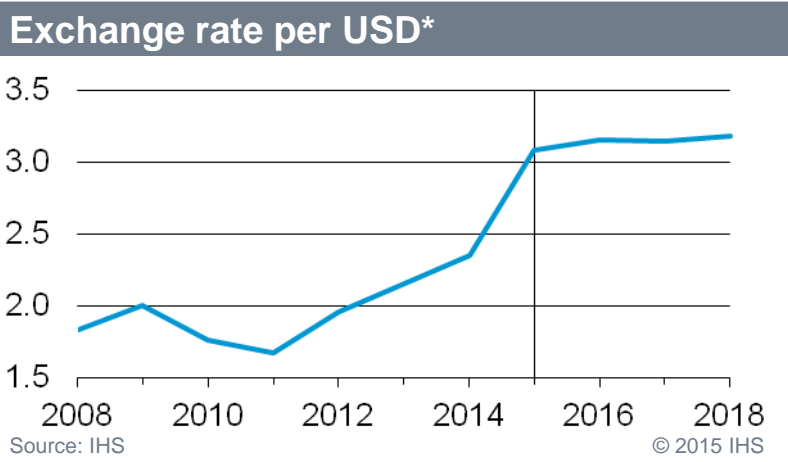
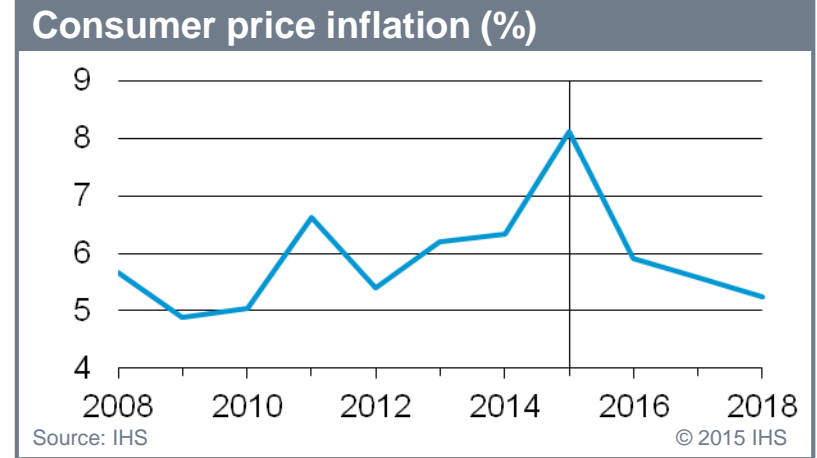
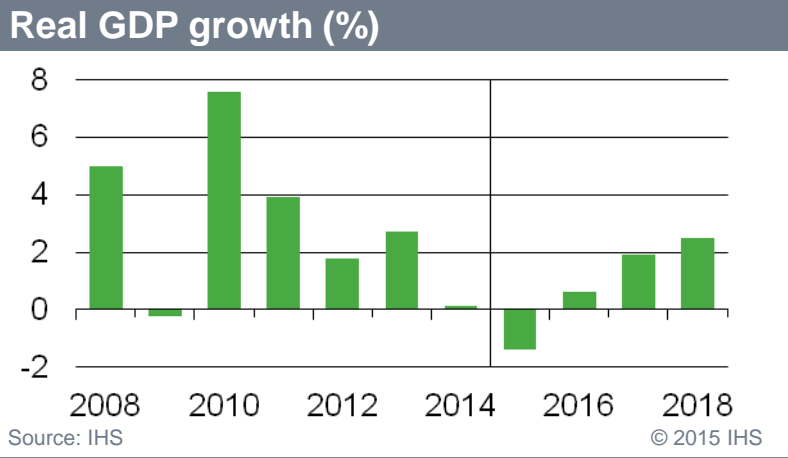
Real GDP growth in South America



Brazil's economy faces competitive challenges

- Brazil's economy and government are facing a crisis of confidence.
- After posting its first primary deficit in 20 years in 2014, the government is attempting to raise taxes and cut public expenditures.
- Low oil prices and corruption investigations at Petrobras are taking a toll on the energy and construction sectors.
- Currency depreciation and a drought pushed consumer price inflation up to 8.5% y/y in May, its highest rate since 2003.
- To fight inflation, the central bank has raised its Selic rate to 13.75%. Another rate hike is expected in late July.
- High labor and capital costs, complex taxation, and inadequate infrastructure are hurting international competitiveness.

Brazil outlook summary



*Annual average, **Billions of US dollars

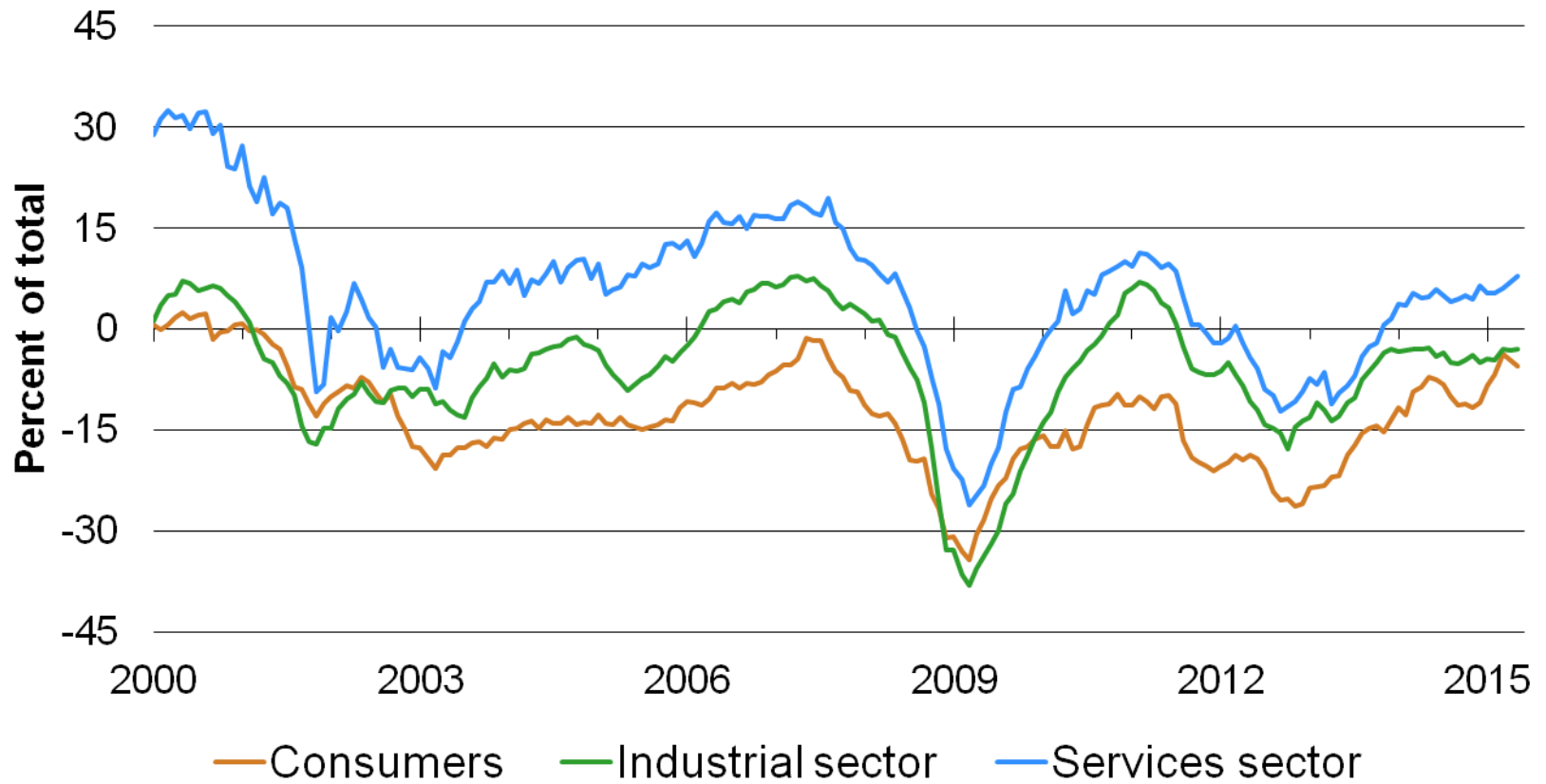
Brazil's economic growth by sector

Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	0.1	-1.4	0.6	1.9
Private consumption	0.9	-1.6	0.5	2.0
Fixed investment	-4.4	-4.3	1.0	2.8
Government consumption	1.3	-1.5	1.1	1.8
Exports	-1.1	2.9	2.9	4.5
Imports	-1.0	-2.5	2.5	5.7

Eurozone confidence indexes have improved

Positive replies minus negative replies



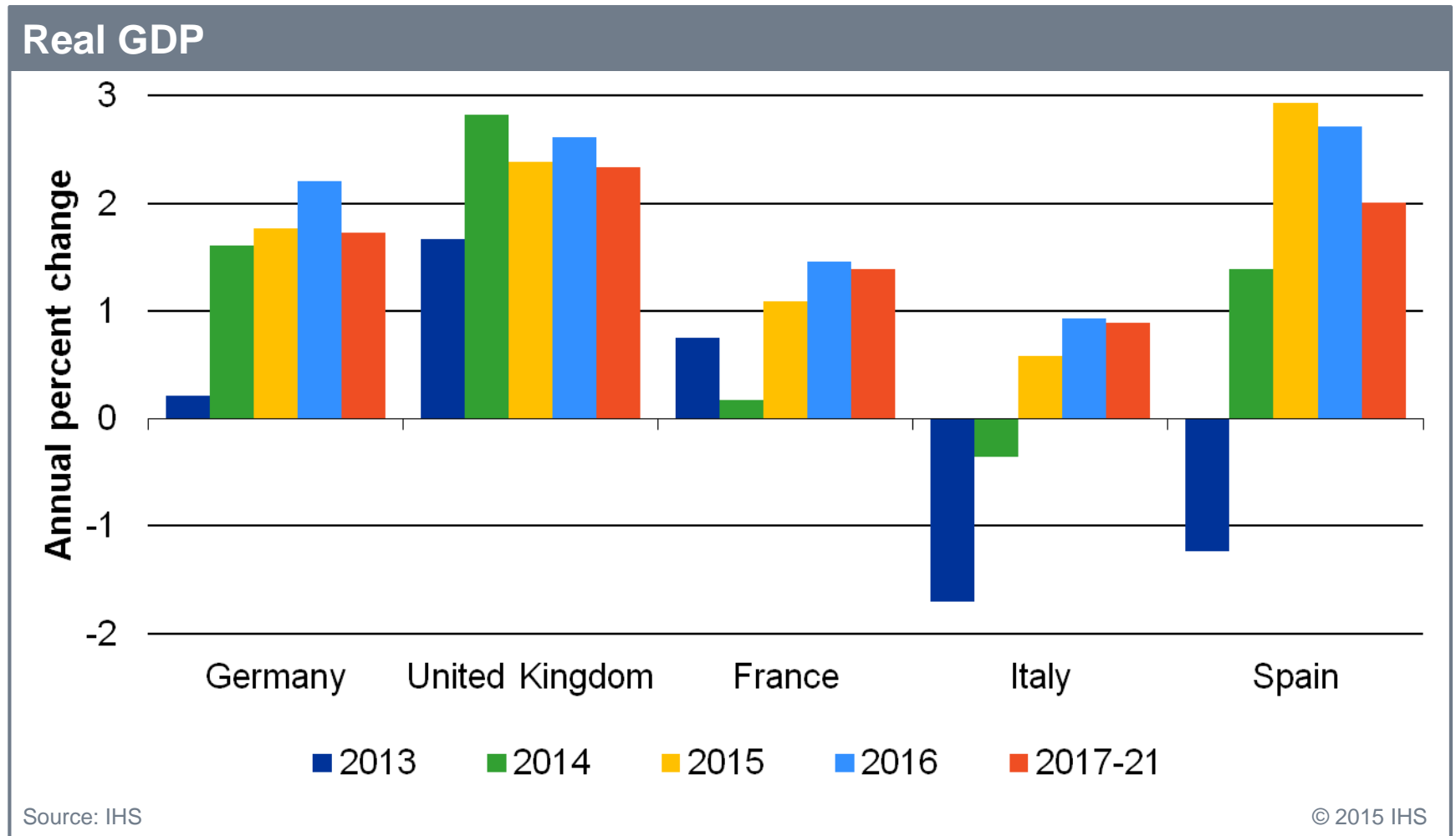
Source: European Commission

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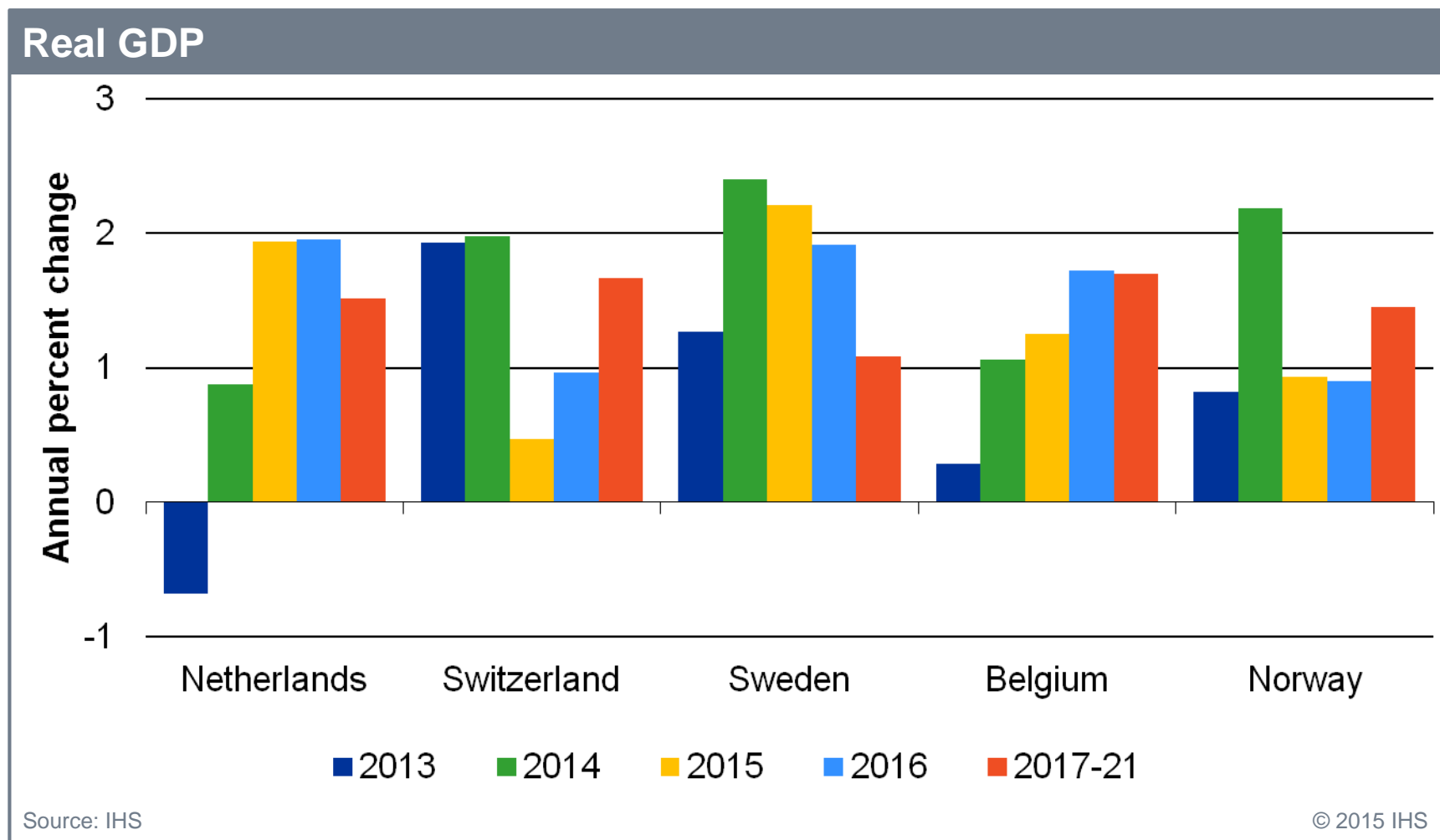
Western Europe's economic growth is strengthening

- The Eurozone economy is slowly gaining momentum, led by an acceleration in consumer spending.
- Investment will strengthen as 2015 progresses, helped by rising business confidence, export growth, and easing credit conditions.
- The European Central Bank is expected to continue its quantitative easing through September 2016.
- High private and public debt levels will limit progress in some countries.
- The United Kingdom, Ireland, Sweden, Germany, and Spain will see healthy economic growth.
- Greece is running out of time to reach an agreement with creditors and avoid default; the probability of an exit from the Eurozone is 45%.

Real GDP growth in Western Europe

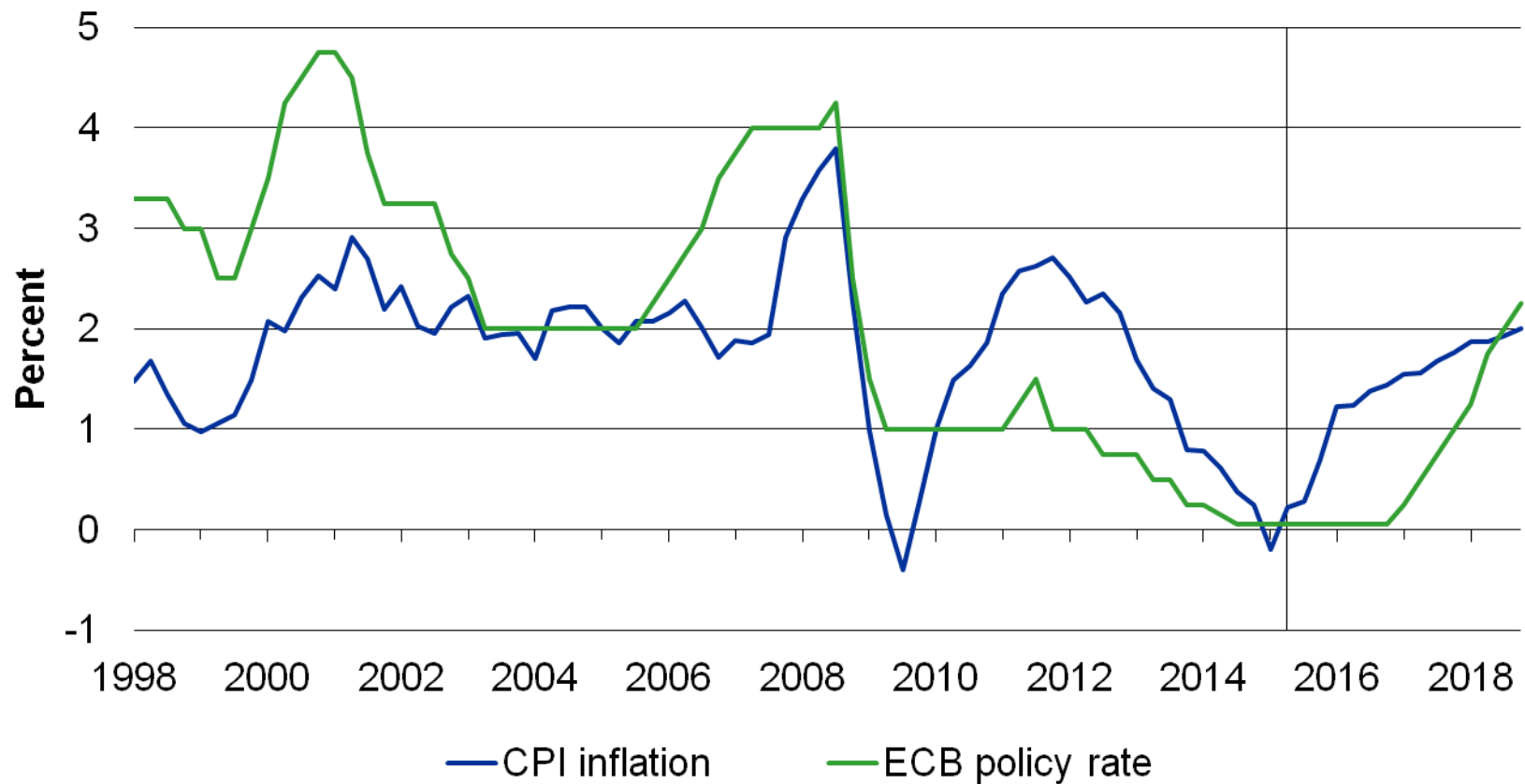


Real GDP growth in Western Europe



Eurozone deflation has ended; the European Central Bank's policy rate will remain near zero through 2016

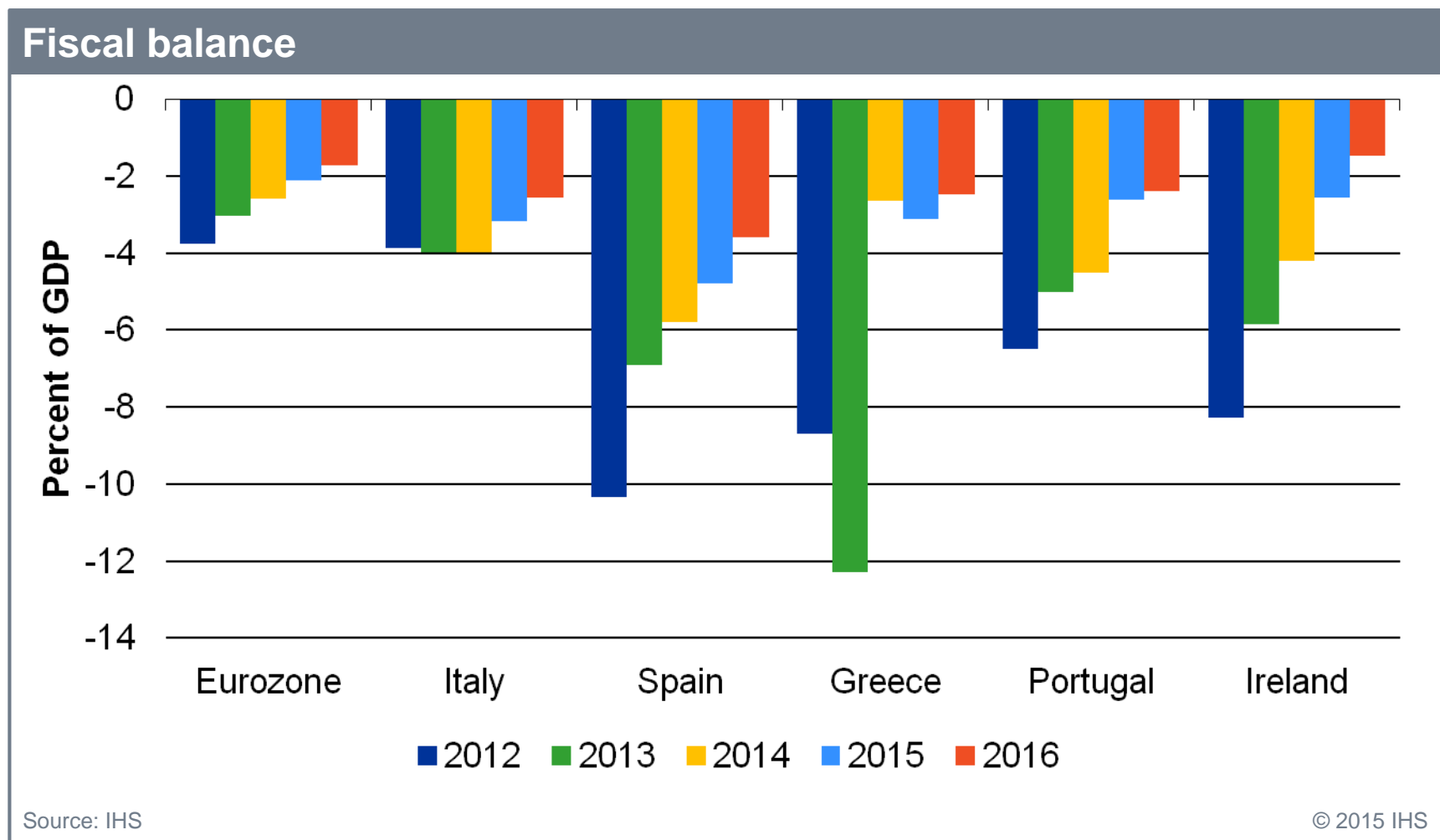
Consumer price inflation and policy interest rate



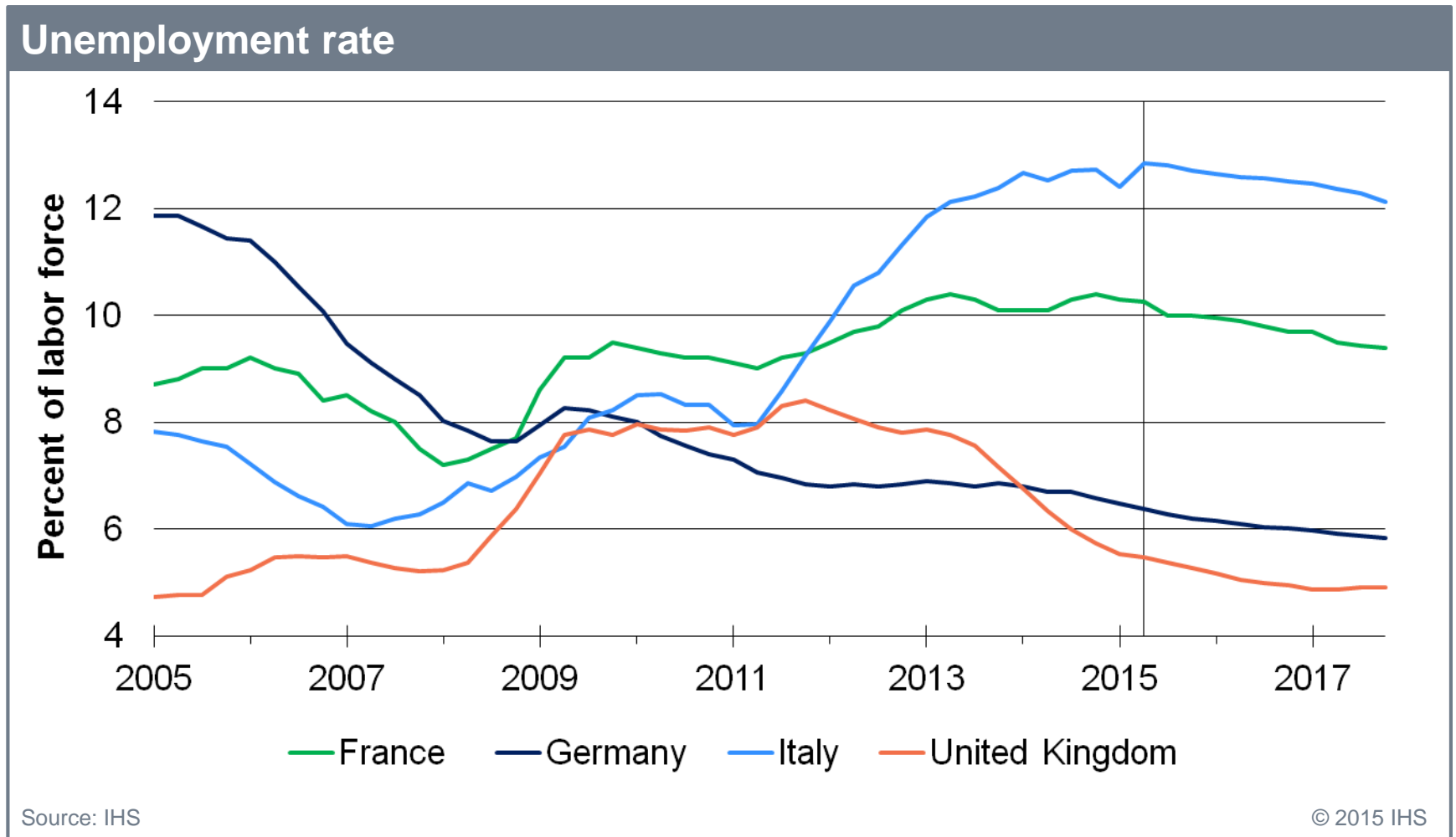
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Eurozone fiscal deficits are shrinking



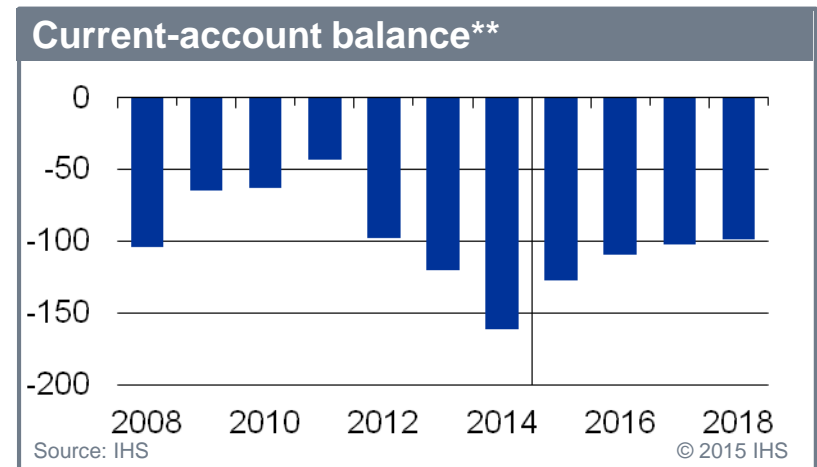
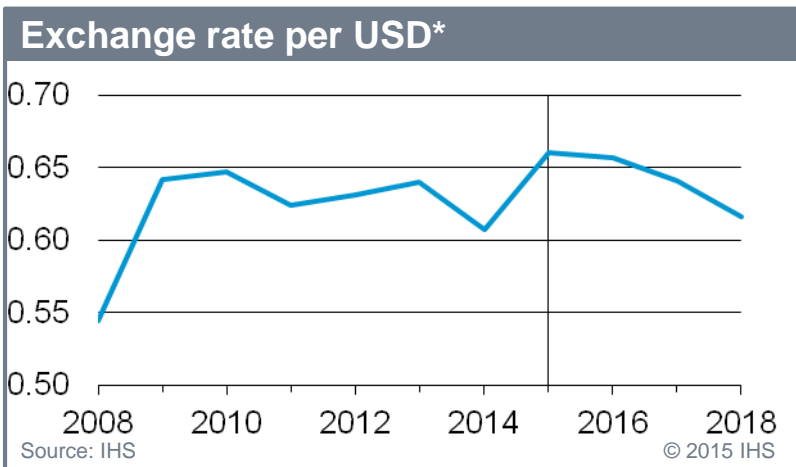
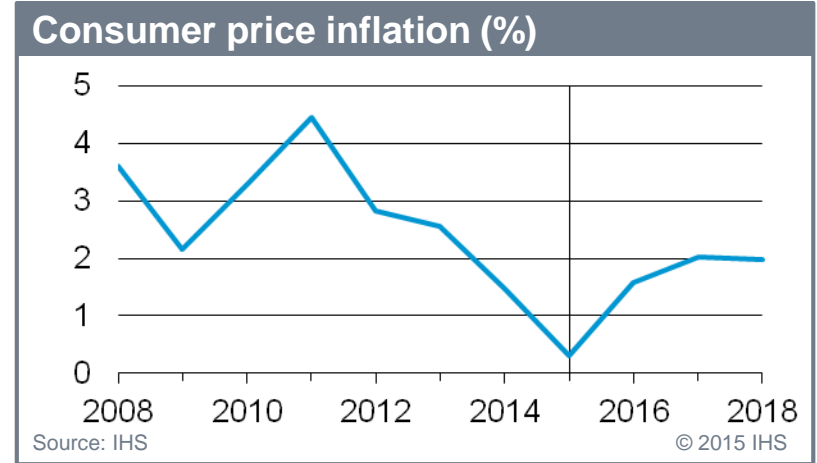
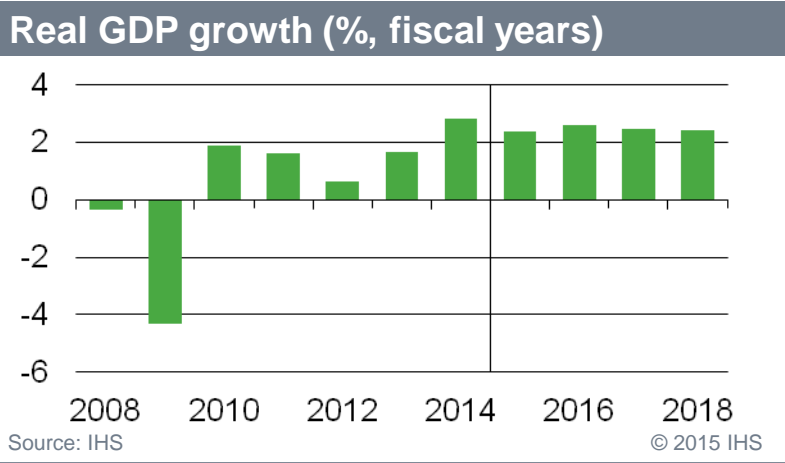
European unemployment rates have diverged



The United Kingdom's expansion has traction

- Confidence is rising and economic fundamentals remain positive.
- Wage growth has picked up, outpacing diminished consumer price inflation and supporting household spending.
- After cooling in late 2014, housing market activity is picking up again.
- A high euro/pound exchange rate will restrain export growth.
- Monetary policy remains accommodative. The Bank of England will gradually raise its policy rate starting in the first quarter of 2016.
- Fiscal policies will tighten further as the United Kingdom aims to reduce its budget deficit.

United Kingdom outlook summary



*Annual average, **Billions of US dollars

UK economic growth by sector

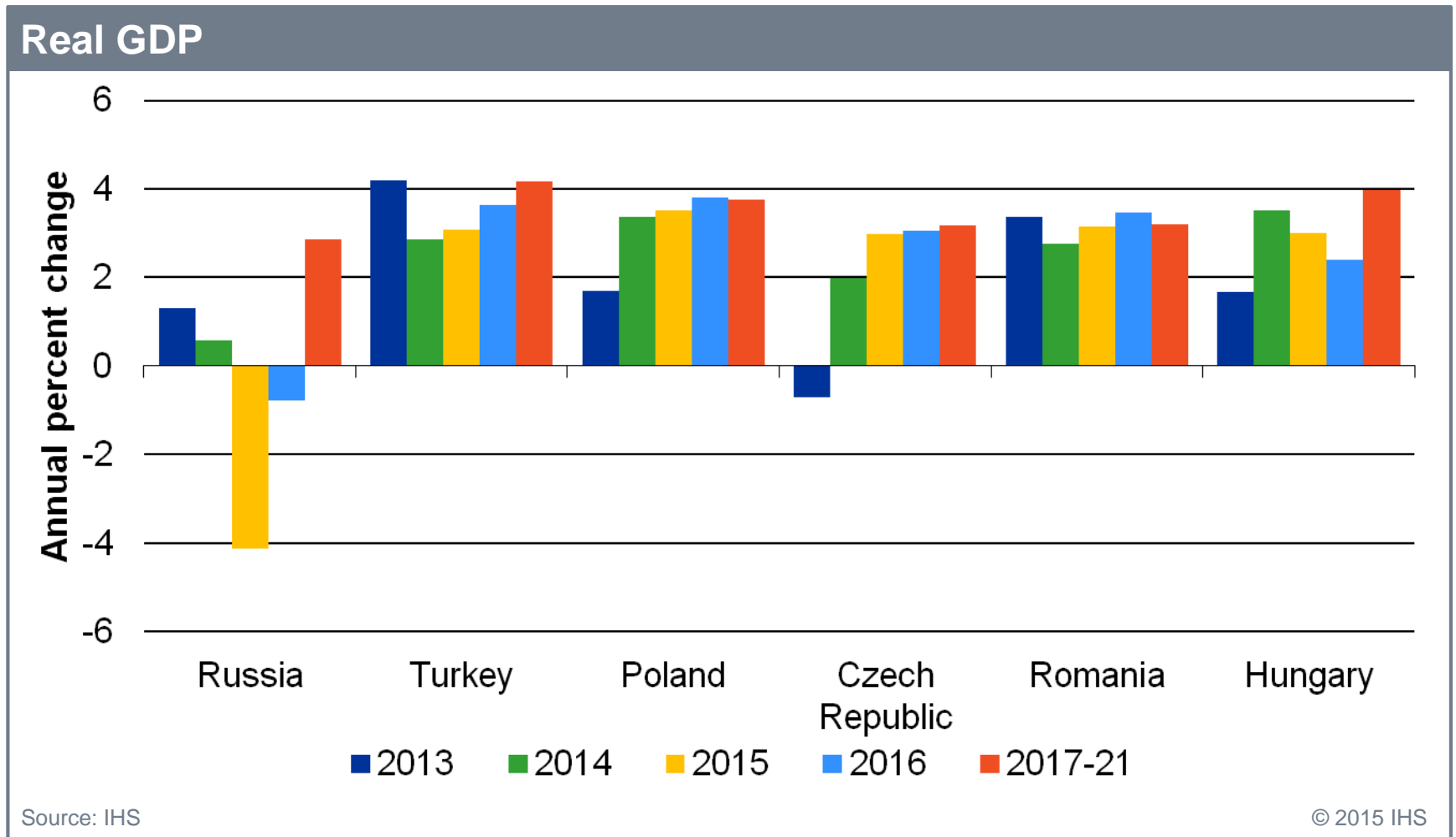
Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	2.8	2.4	2.6	2.5
Private consumption	2.5	2.9	3.1	2.7
Fixed investment	7.8	4.4	5.3	4.6
Government consumption	1.7	1.1	0.2	0.3
Exports	0.6	5.2	5.9	5.2
Imports	2.2	6.0	5.5	5.2
Industrial production	1.6	1.9	2.5	2.5

Emerging Europe has winners and losers from the decline in oil prices

- The Eurozone's gradual recovery and lower oil prices will help the economies of Central Europe and the Balkans.
- Robust growth in investment leads Poland's continuing expansion.
- In Turkey, the benefits of low oil prices will be offset by weakness in Russian and Middle Eastern export markets.
- The plunge in oil prices, along with economic sanctions and capital flight, will keep Russia in recession in 2015–16.
- With energy export revenues declining, Kazakhstan, Azerbaijan, and Turkmenistan will see sharp decelerations in economic growth.
- An intensified Russia-Ukraine conflict poses a downside risk.

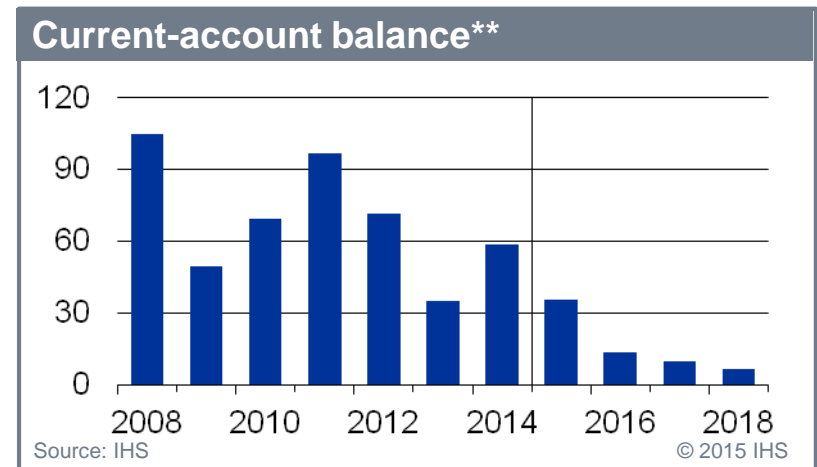
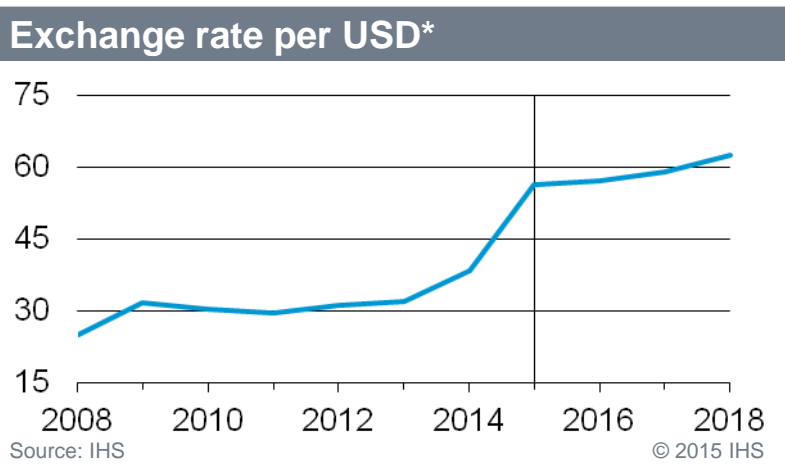
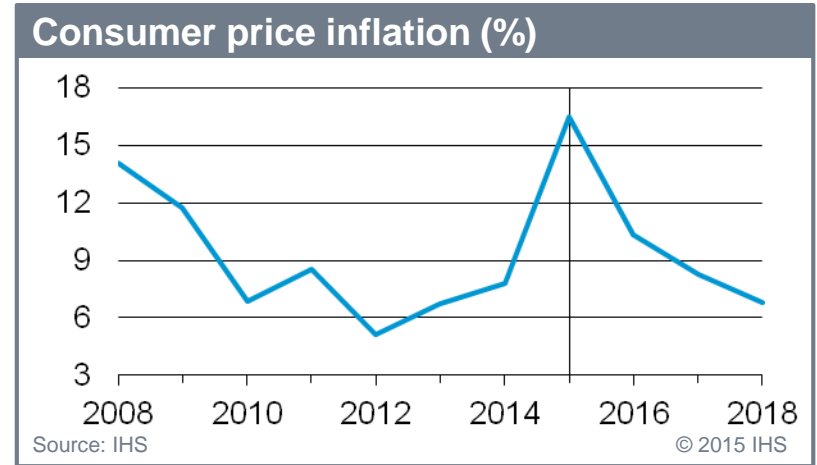
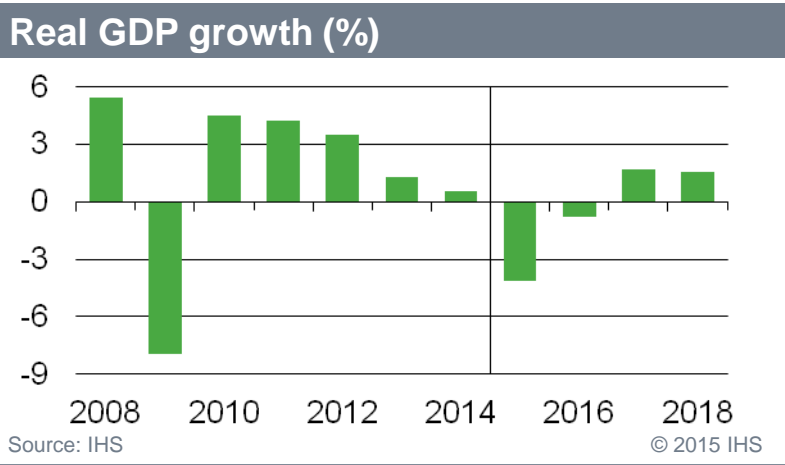
Real GDP growth in Emerging Europe



Russia faces a severe recession in 2015–16

- The “perfect storm” of falling oil prices, economic and financial sanctions, and capital flight has sent Russia into recession.
- Sanctions have isolated banks and enterprises from international capital markets, while the cost of raising funds domestically has soared.
- Rising inflation is hurting household purchasing power and spending.
- Real GDP is expected to decline 4.1% in 2015 and 0.8% in 2016.
- Sanctions will reduce access to oilfield technology and Western capital, leading to a decline in oil production in 2016 and beyond.
- Unfavorable demographics, outmoded manufacturing capacity, and an overburdened infrastructure will limit long-term growth.

Russia outlook summary



*Annual average, **Billions of US dollars

Russia's economic growth by sector

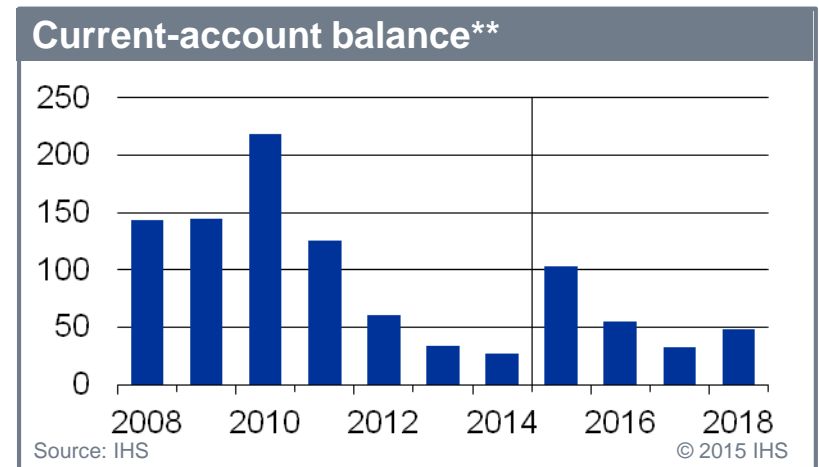
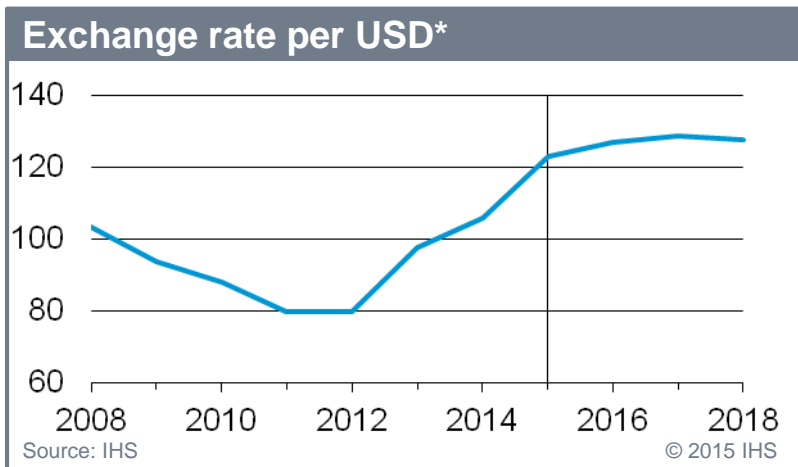
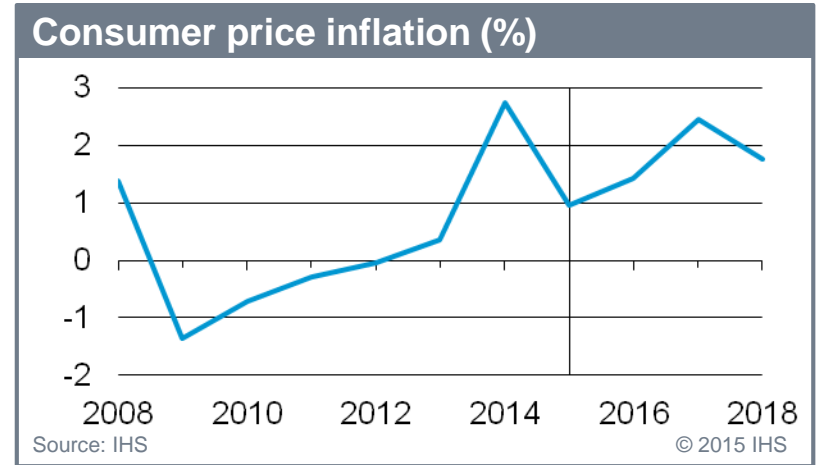
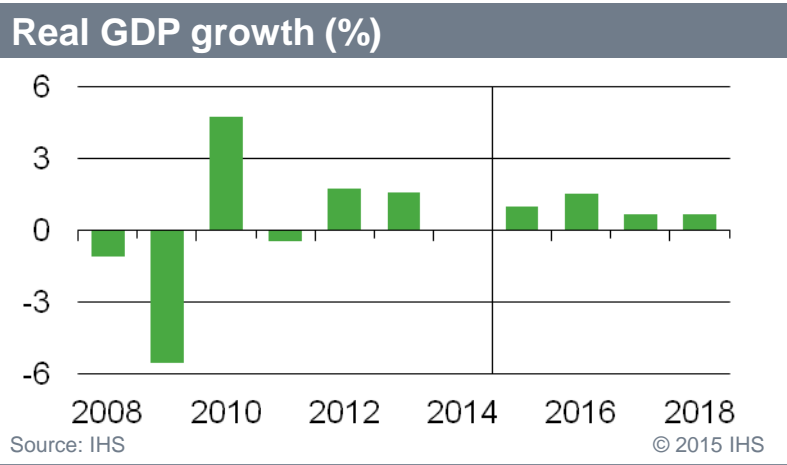
Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	0.6	-4.1	-0.8	1.7
Private consumption	1.3	-4.6	-2.8	1.3
Fixed investment	-2.3	-14.4	-5.5	4.3
Government consumption	-0.1	-6.3	-0.5	2.8
Exports	0.2	-4.2	4.0	3.2
Imports	-7.3	-1.0	-0.1	1.9

Japan's economy travels a slow growth path

- Real GDP increased at a 3.9% annual rate in the first quarter, led by a surge in capital spending and inventory accumulation.
- Lower oil prices are supporting consumer purchasing power, while a weaker yen boosts exports and corporate profits.
- Labor shortages will encourage capital-intensive development.
- The next consumption tax increase, from 8% to 10% in April 2017, will trigger another spending cycle with buy-in-advance behavior.
- Long-term growth will depend on how the Abe administration implements reforms in labor and product markets.
- A declining and aging population limits long-term growth potential.
- High government debt may become a serious challenge.

Japan's outlook summary



*Annual average, **Billions of US dollars

Japan's economic growth by sector

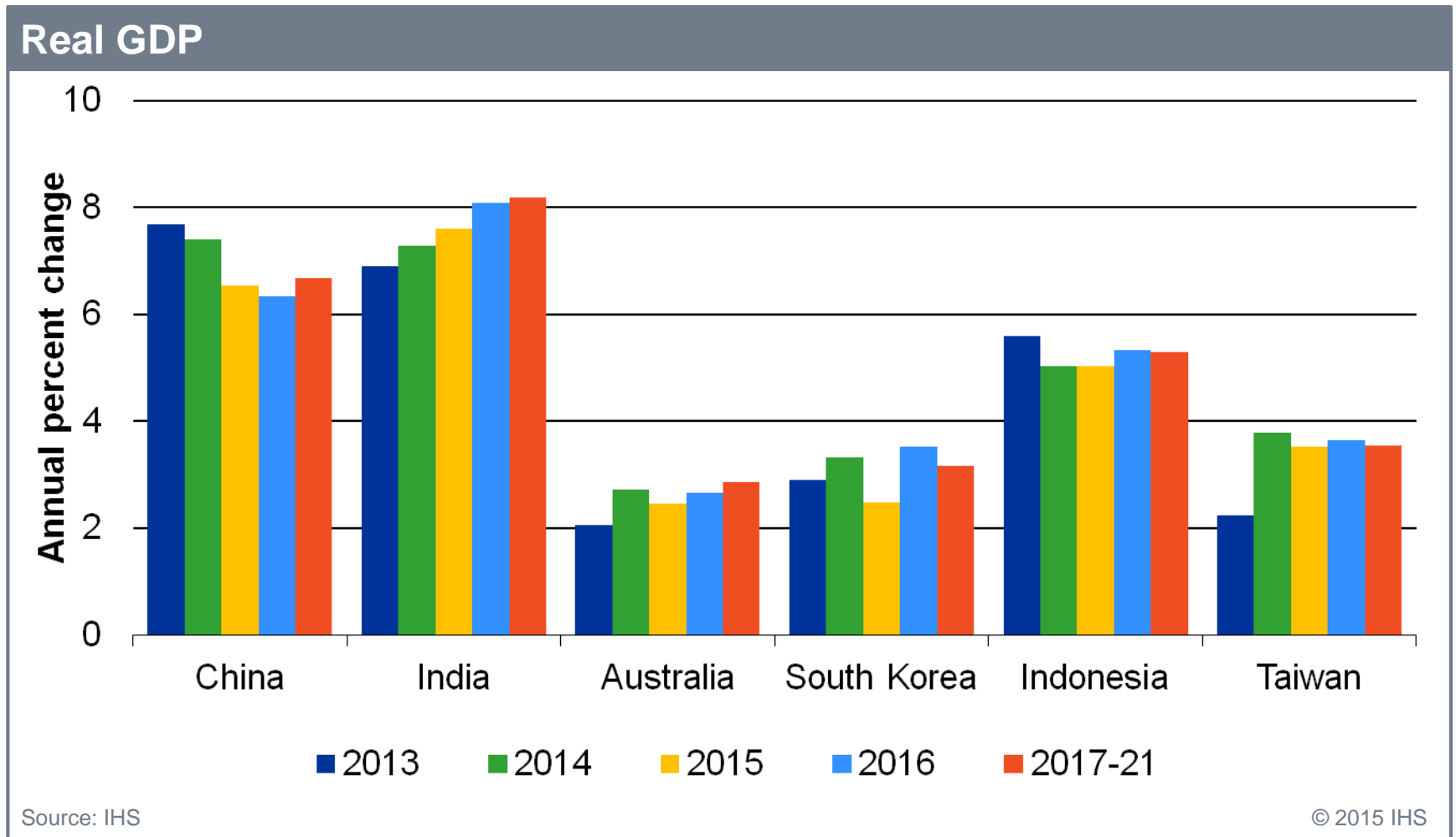
Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	-0.1	1.0	1.5	0.7
Private consumption	-1.3	0.2	1.5	-0.4
Fixed investment	2.4	0.5	2.7	2.6
Government consumption	0.3	0.5	-0.1	0.2
Exports	8.4	6.6	6.9	5.7
Imports	7.4	2.7	6.6	4.2

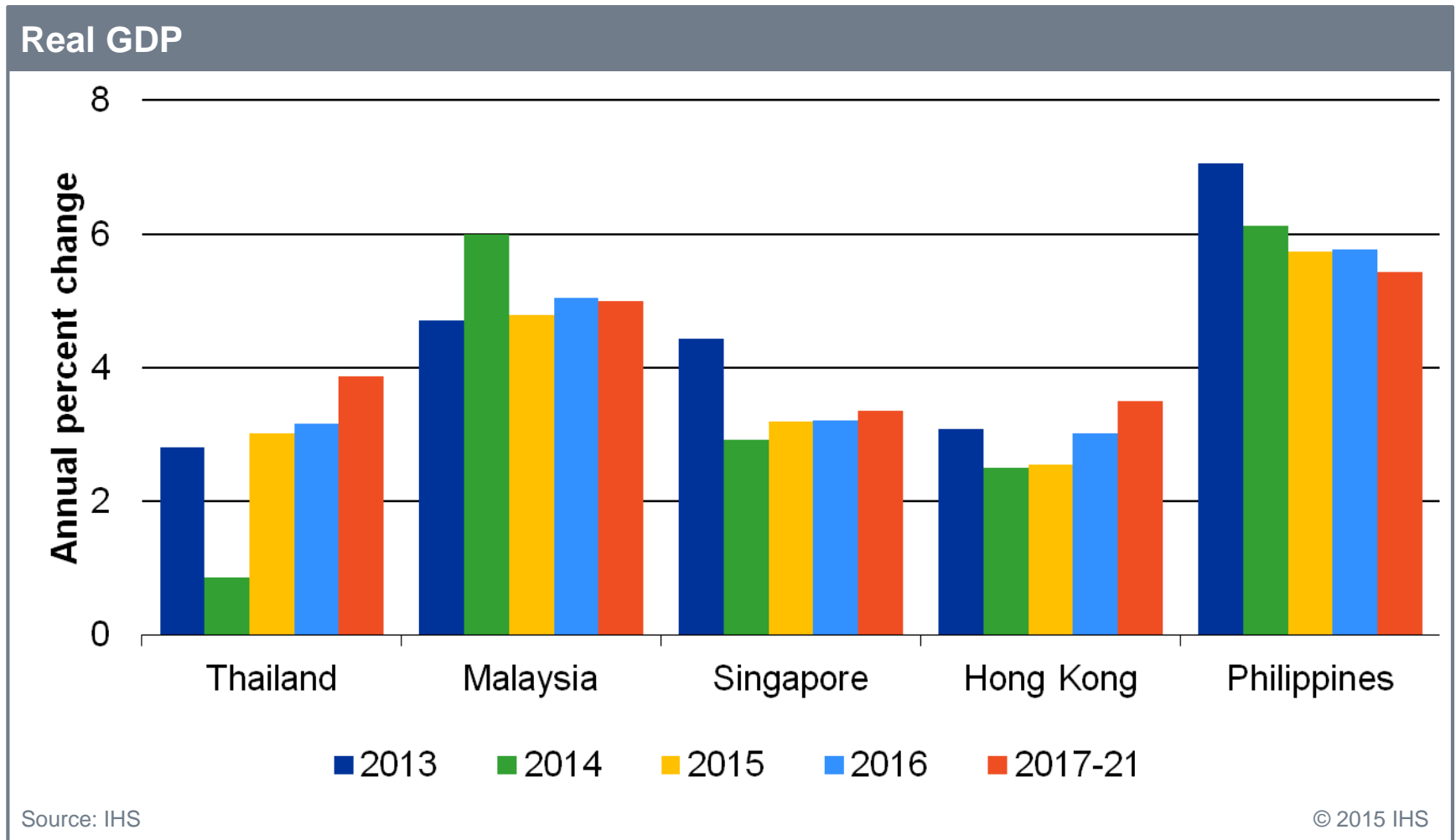
Asia-Pacific will lead all regions in growth

- The Asia-Pacific region is a beneficiary of lower oil prices. China, Japan, India, and South Korea are major net importers of oil.
- Weakness in prices of minerals and other commodities will, however, adversely affect Indonesia, Australia, and Malaysia.
- China's fixed investment is decelerating as the economy rebalances, slowing overall economic growth.
- India's economy is reviving and foreign investment is returning. The moderation in inflation has enabled interest-rate cuts.
- Indonesia's growth is stabilizing near 5%; capital inflows are critical to financing the country's significant infrastructure needs.
- The region's outlook for consumer spending is bright, thanks to robust income growth and deepening financial markets.

Real GDP growth in Asia-Pacific



Real GDP growth in Asia-Pacific

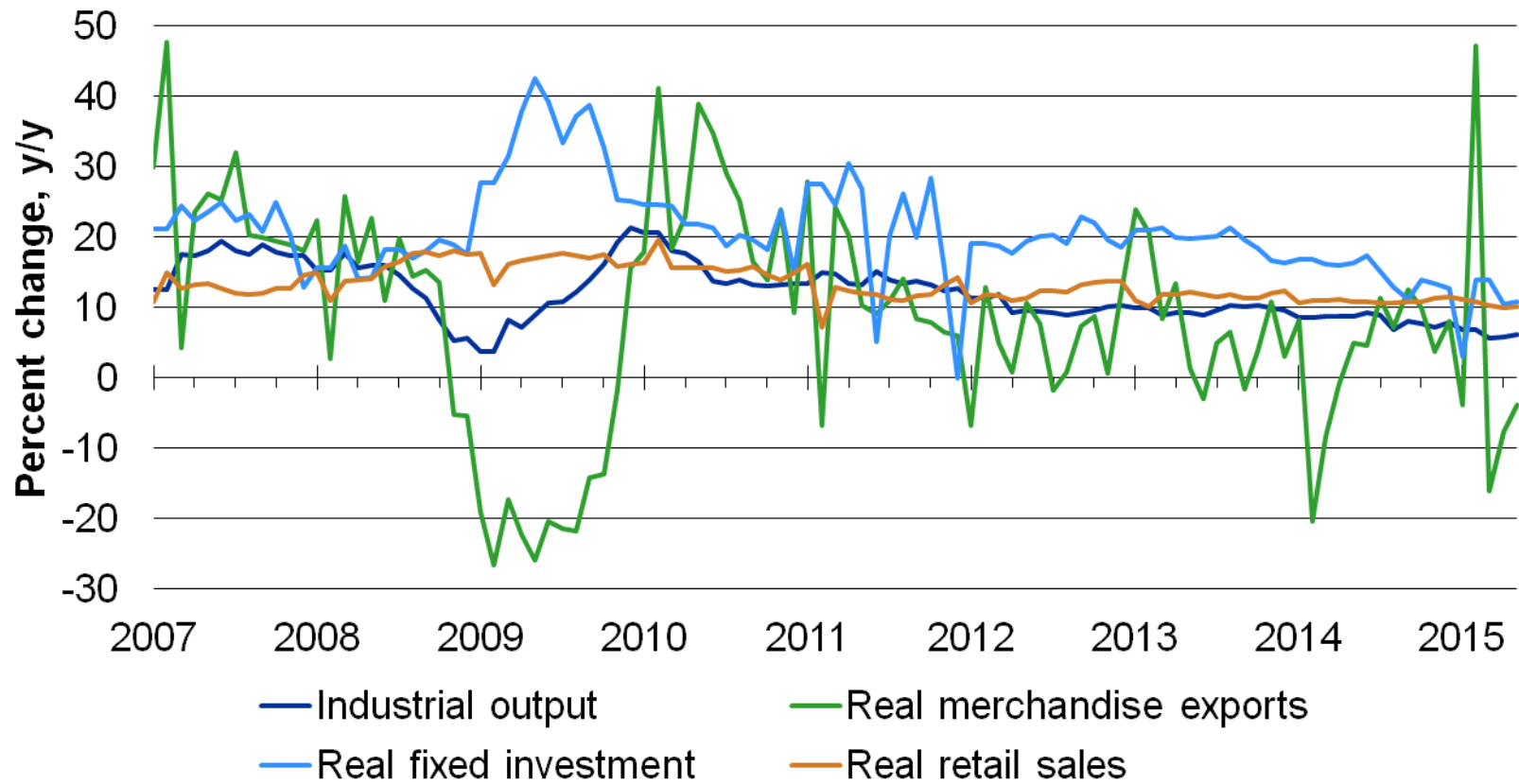


China's economic deceleration will continue

- China's economy will continue to decelerate in 2015–16 in response to excesses in housing markets, industrial capacity, and debt.
- Inflation is subdued, reflecting declines in commodity prices and overcapacity in heavy industries.
- The central bank will continue to ease monetary policies.
- With total debt exceeding 250% of GDP, China will need to restrain debt accumulation more aggressively in the years ahead.
- We expect the government will stay the course on economic reforms.
- Vast excess industrial capacity, financed by an explosion of debt, is the biggest threat to China's growth prospects.

China's economic growth has slowed

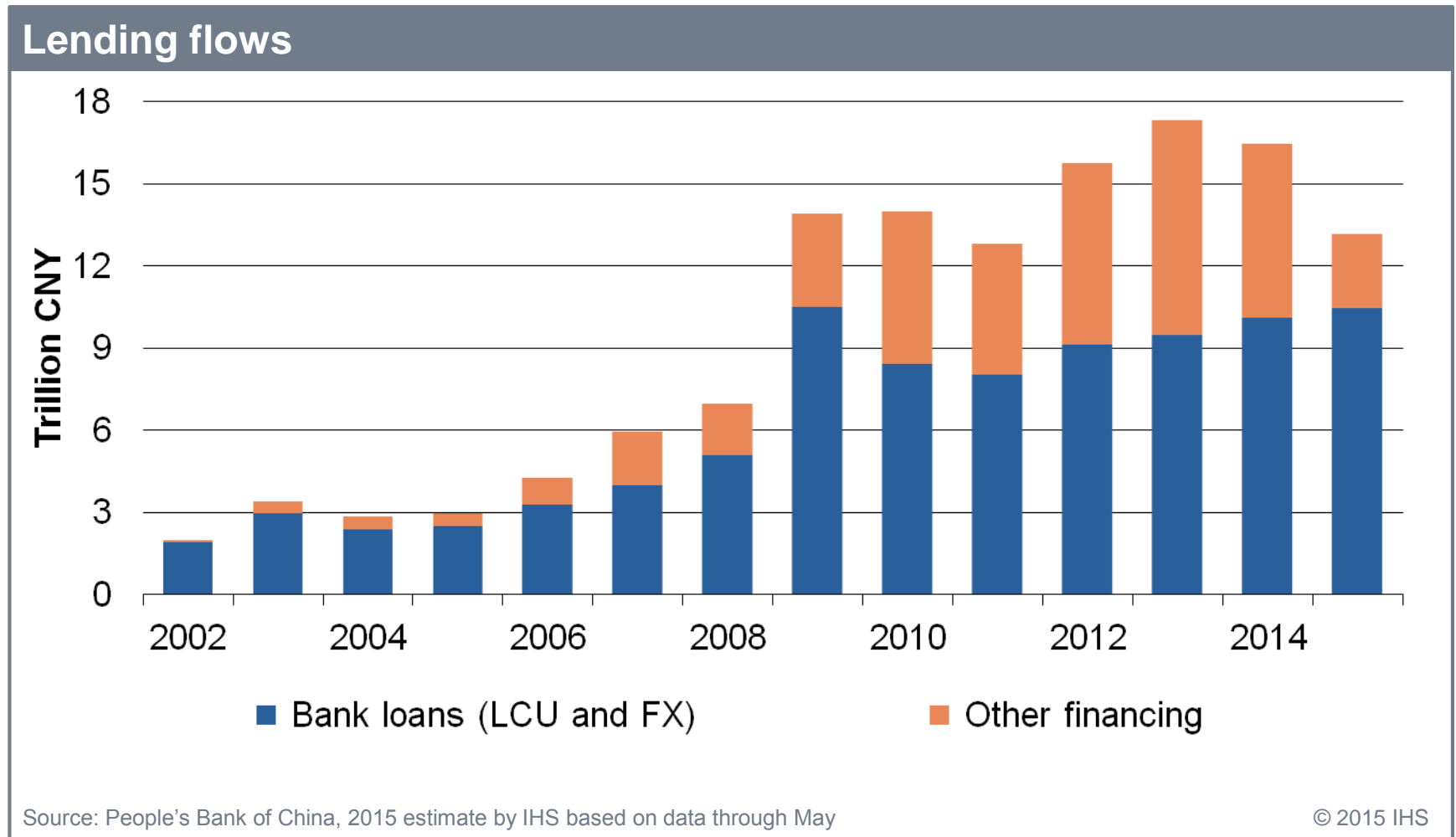
Key indicators



Sources: NBS, China Customs, IHS

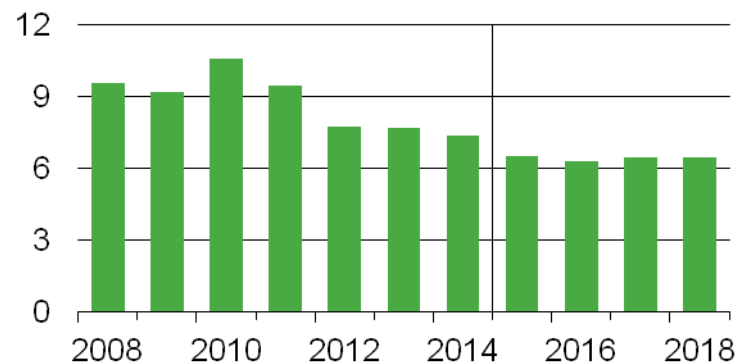
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China's lending flows are decreasing, reflecting a drop in shadow financing



China outlook summary

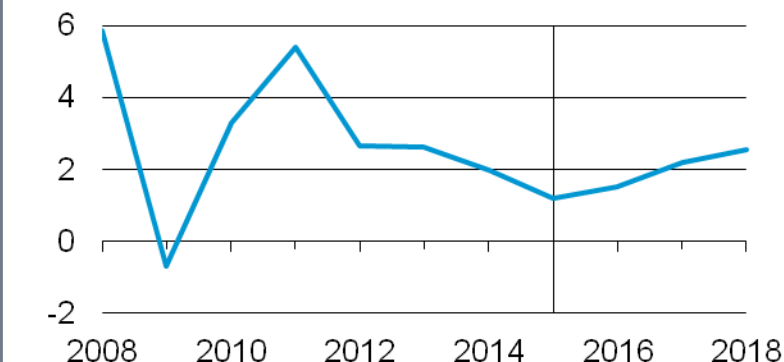
Real GDP growth (%)



Source: IHS

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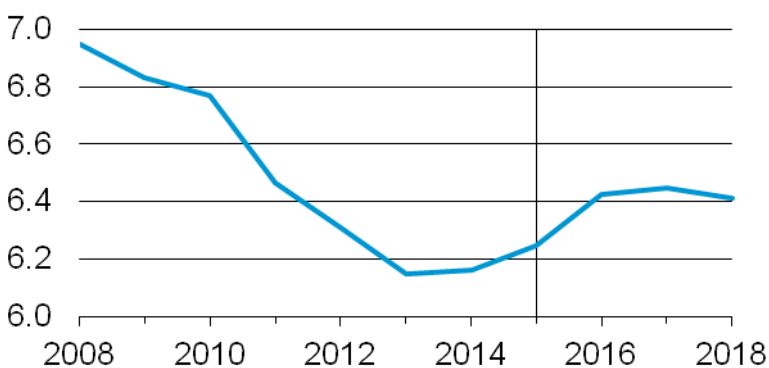
Consumer price inflation (%)



Source: IHS

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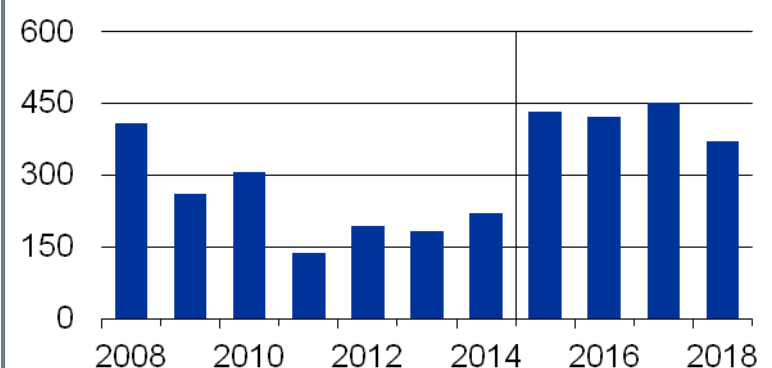
Exchange rate per USD*



Source: IHS

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Current-account balance**



Source: IHS

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*Annual average, **Billions of US dollars

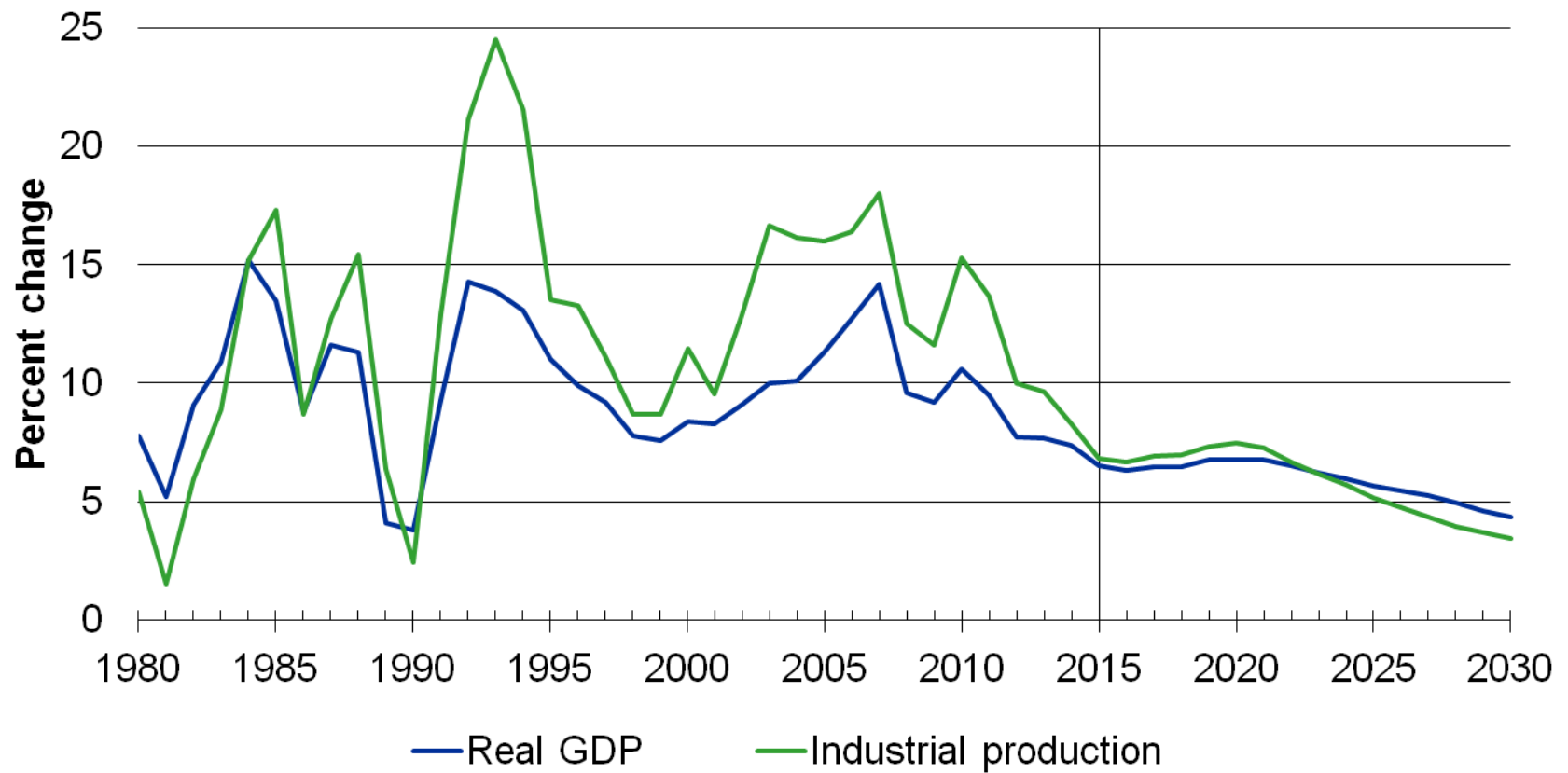
China's economic growth by sector

Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	7.4	6.5	6.3	6.5
Private consumption	6.8	6.6	6.0	6.2
Fixed investment	5.7	4.9	4.7	4.9
Government consumption	8.0	7.8	7.4	7.0
Exports	5.9	6.7	8.3	7.3
Imports	4.9	5.4	7.0	7.0

China's economic growth will downshift in the long run

Real GDP and industrial production



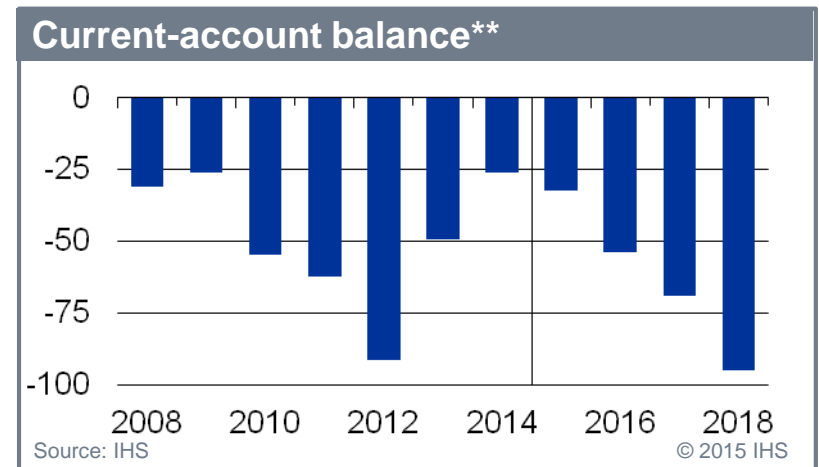
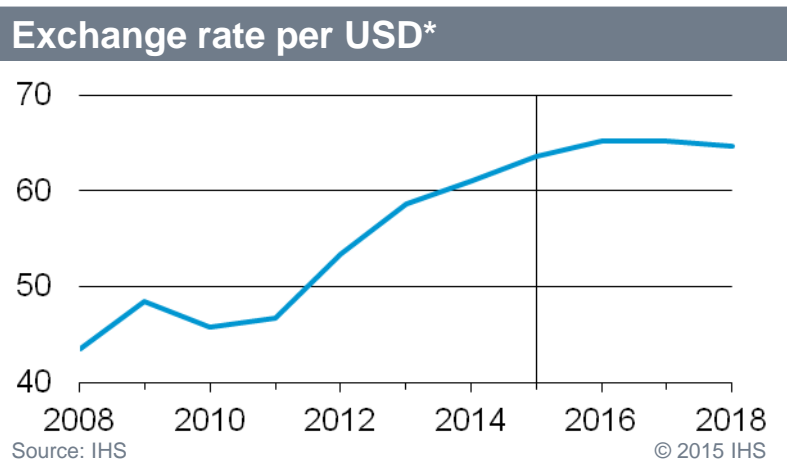
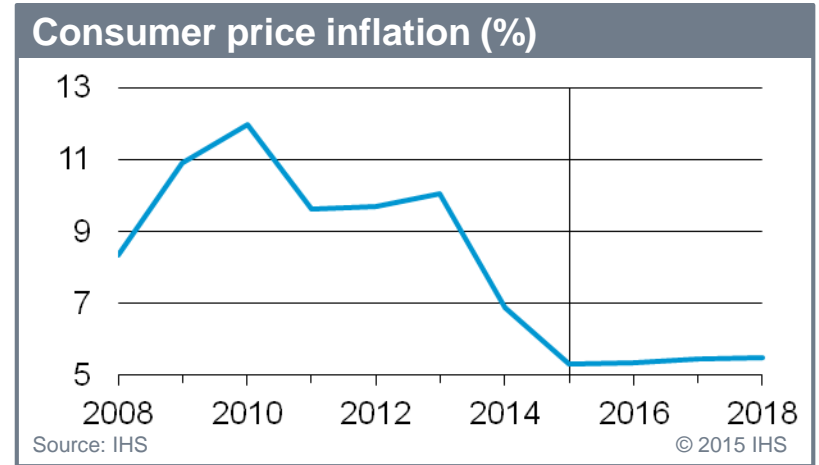
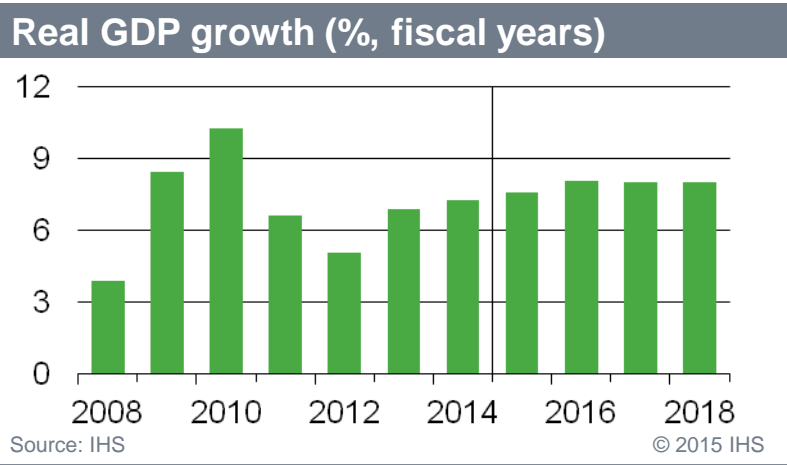
Source: IHS

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India is outpacing China in economic growth

- Real GDP expanded 7.5% y/y in the January–March quarter, led by gains in private consumption and fixed investment. Exports, imports, and public consumption posted declines.
- Industrial production accelerated in April, reflecting strength in capital goods and signs of a recovery in consumer goods output.
- A moderation in inflation has enabled the Reserve Bank of India to reduce its policy rate three times in 2015, to 7.25%. No further cuts are expected this year.
- Automotive, construction, and infrastructure sectors will lead growth.
- Policy reforms will slowly move forward, including a general sales tax. Much remains to be done to open markets, upgrade infrastructure, and raise productivity.

India outlook summary



*Annual average, **Billions of US dollars

India's economic growth by sector

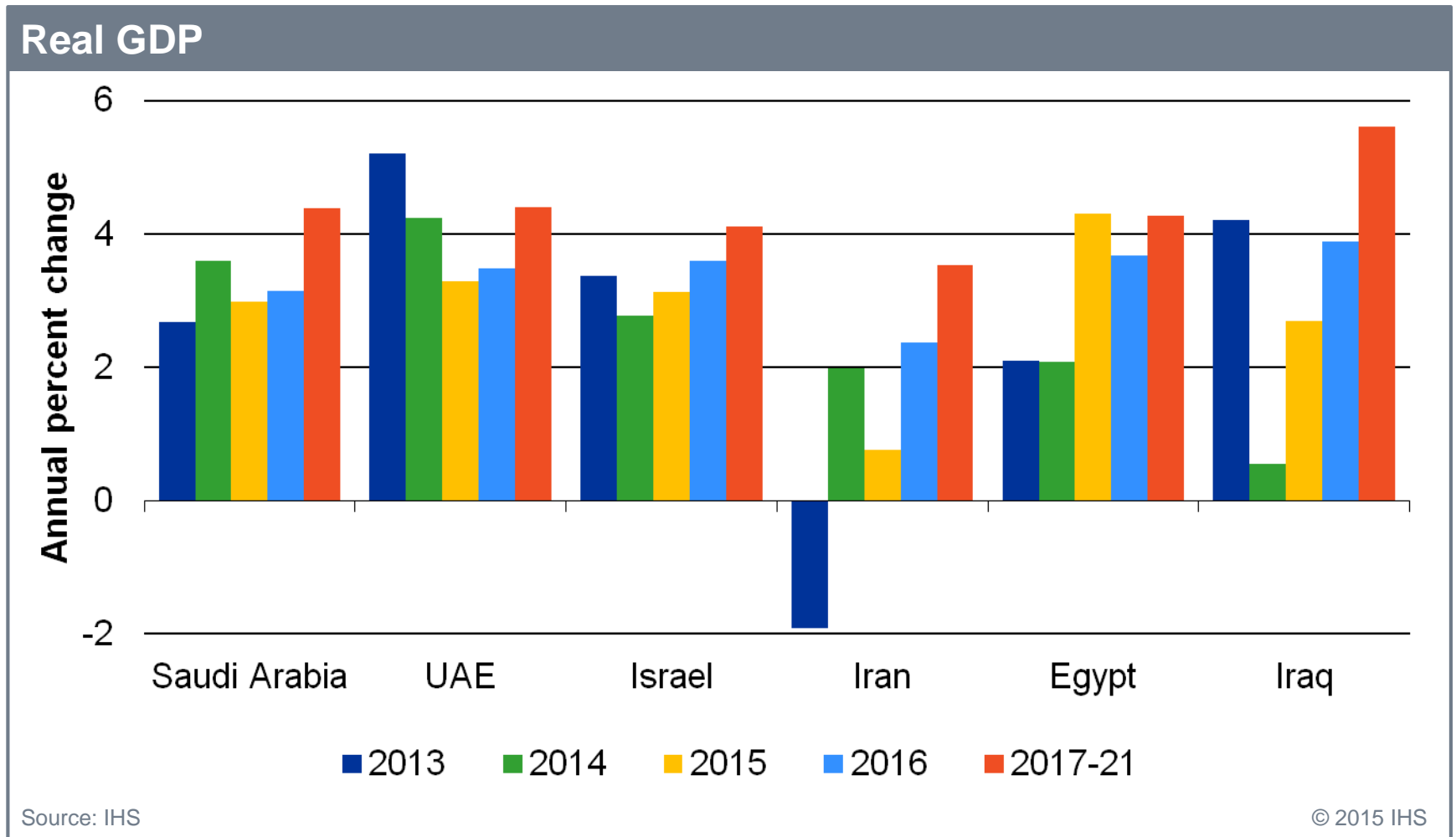
Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	7.3	7.6	8.1	8.0
Private consumption	6.3	7.0	8.2	8.2
Fixed investment	4.6	6.4	7.9	8.6
Government consumption	6.6	5.2	6.7	7.0
Exports	-0.8	2.7	8.0	8.9
Imports	-2.1	1.1	8.9	9.0

The Middle East and North Africa

- The drop in oil prices, regional political instability, and war with the Islamic State are darkening the economic outlook.
- Lower oil prices will hurt Saudi Arabia, Kuwait, Iran, the United Arab Emirates (UAE), and Libya, but help Jordan, Lebanon, Morocco, and Tunisia.
- OPEC crude-oil production is expected to rise slightly in 2015, the result of increases in Saudi Arabia and Iraq.
- Whereas Saudi Arabia, Kuwait, and the UAE have strong reserves, the finances of Iran, Libya, and Algeria will be strained.
- Egypt's economy is recovering, despite political and security risks.
- Addressing job growth, economic diversification, and competitiveness will be critical to regional stability in the long run.

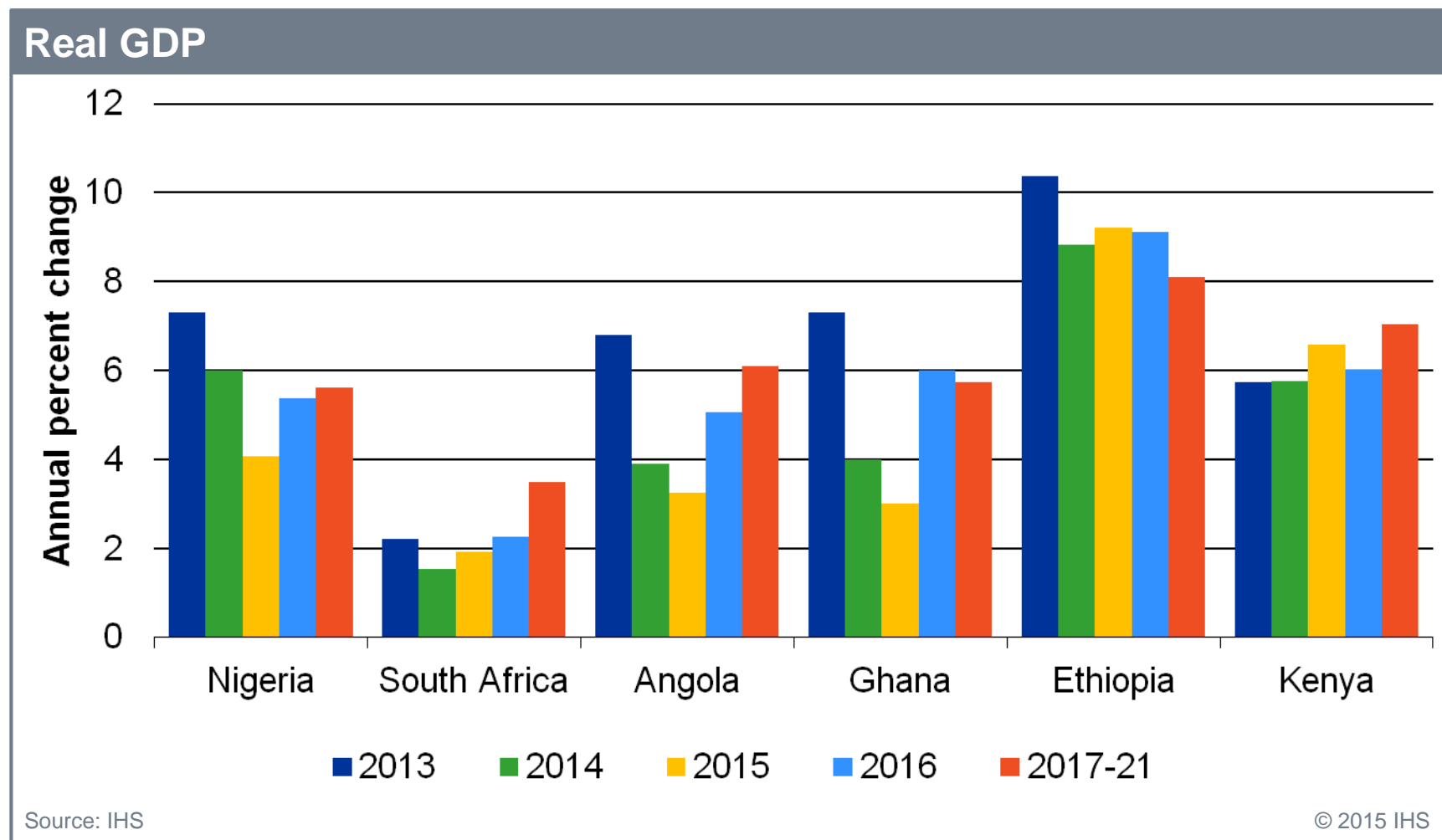
Real GDP growth in the Middle East and North Africa



Sub-Saharan Africa will sustain rapid growth

- Falling commodity export revenues are restraining growth in 2015.
- Lower oil prices are helping South Africa and Zambia, but hurting Nigeria, Angola, and Mozambique.
- Expanding domestic markets, income gains, and regional integration will support long-term economic growth.
- Macroeconomic management is improving substantially, poverty is declining, and foreign direct investment is rising.
- Poor infrastructure (especially power generation), political instability, and corruption remain obstacles to economic development.
- With large fiscal and current-account deficits and a challenging business environment, South Africa is vulnerable to capital flight.

Real GDP growth in Sub-Saharan Africa



Summary

- Low oil prices, monetary stimulus in Europe and Asia, and better US growth will provide the foundations for a pickup in the global economy.
- The US expansion is led by domestic demand, with consumer spending and residential construction accelerating.
- The Eurozone is gaining momentum, helped by a weak euro. Contagion from the ongoing Greek situation will be limited.
- Emerging markets will not regain the peak growth rates of the 2000s.
- The Asia-Pacific region will make the strongest contribution to global economic growth.
- Risks abound: a potential Greek debt default, wars in the Middle East, the Russia-Ukraine conflict, China's rising debt, and central bank "exit strategies."

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