

**Climbing walls of worry: prospects  
for the world economy **Martin Wolf,**  
**Associate Editor & Chief Economics  
Commentator, *Financial Times*****

Fundação Fernando Henrique Cardoso

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Sao Paulo, Brazil

# Prospects for the world economy

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- Global transformation
- Exiting the “Great Recession”
- Economic worries
- Political worries
- Conclusion

# 1. Global transformation

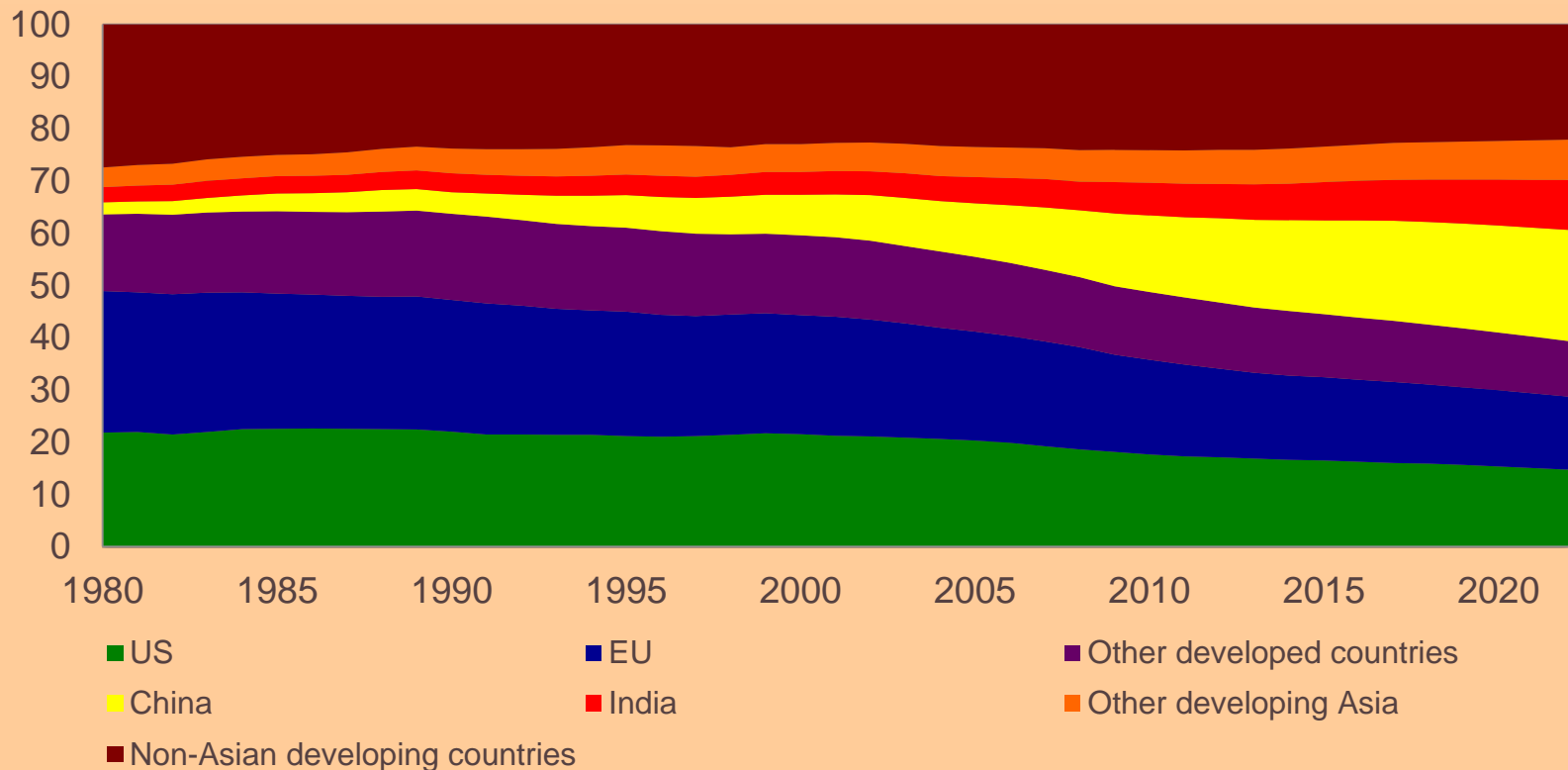
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- We are in an era of political and economic transformation, marked by:
  - Huge shifts in global power
  - Declining economic dynamism
  - Slowing globalisation
  - Rising populism, nationalism, authoritarianism and protectionism
- We do not know how this will end

# 1. Global transformation: power shift

## THE ASIAN CONVERGENCE

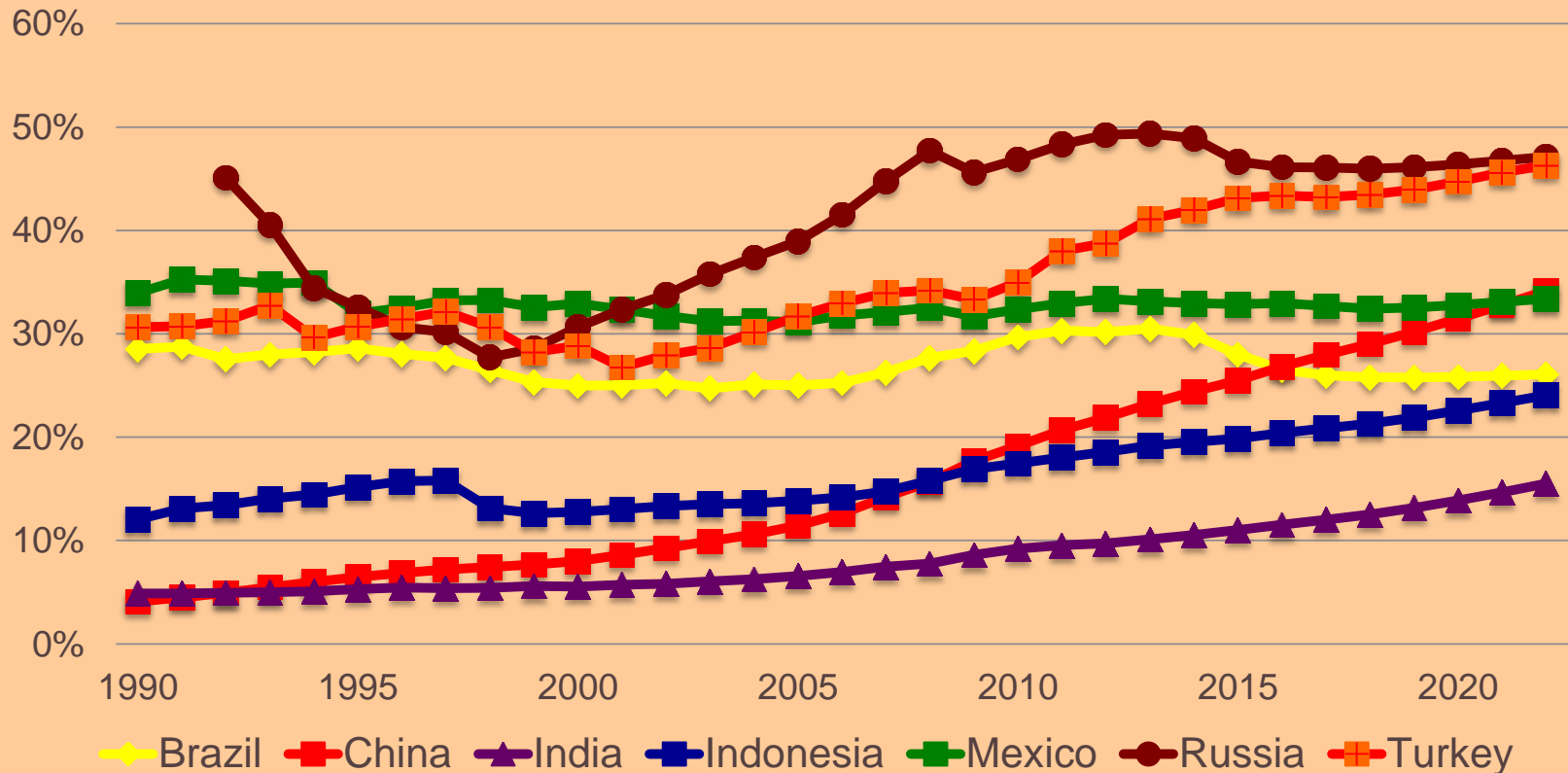
SHARES IN WORLD GDP AT PPP  
(excluding CIS) (per cent) (Source: IMF)



# 1. Global transformation: convergence

## ASIA CONVERGES, BUT OTHERS DO NOT

GDP PER HEAD RELATIVE TO THE US (per cent; at PPP)

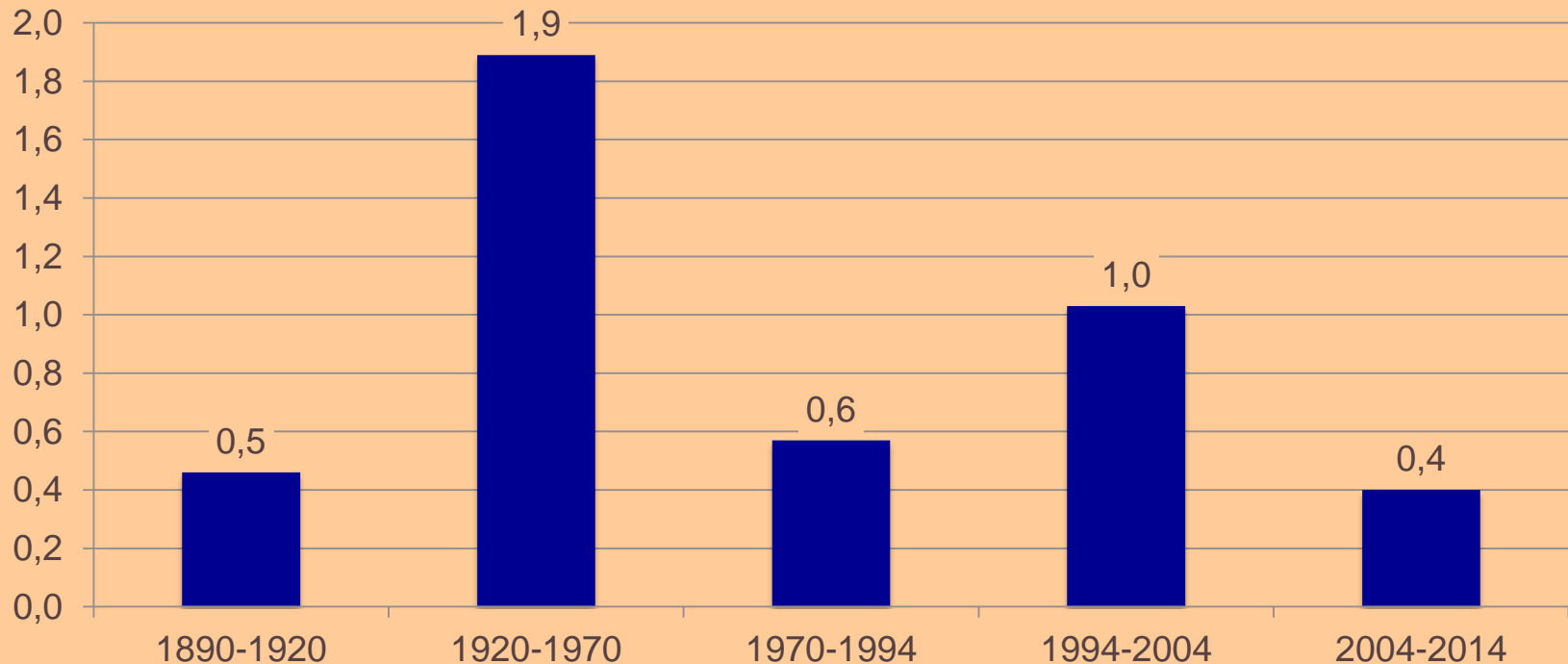


# 1. Global transformation: lost dynamism

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## THE DECLINE OF INNOVATION

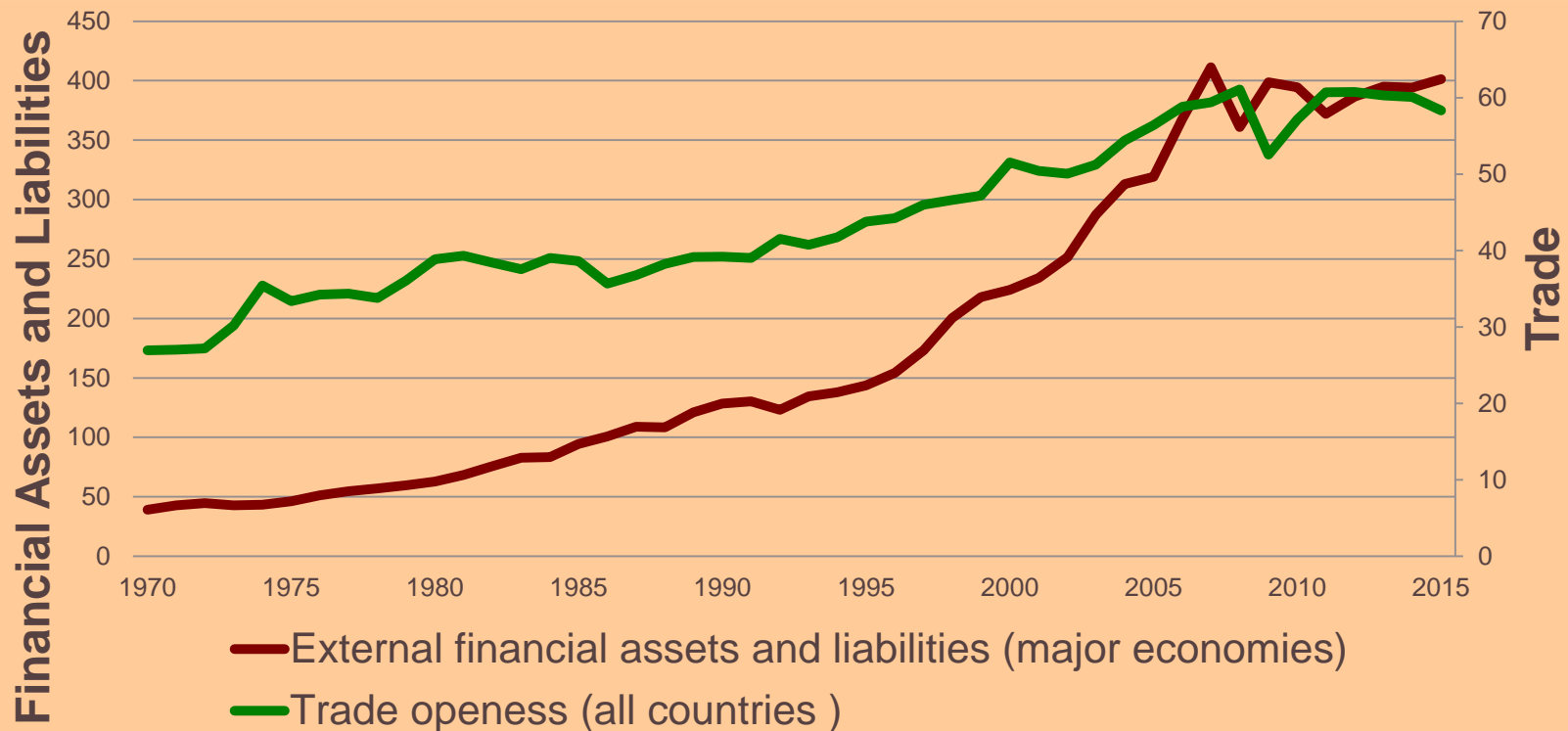
ANNUALISED GROWTH OF US TOTAL FACTOR  
PRODUCTIVITY (percentage points) (Source: Robert  
Gordon)



# 1. Global transformation: globalisation lost

## GLOBALISATION RESTS

FINANCIAL ASSETS AND TRADE (as a per cent of GDP)(Source: BIS)



## 2. Exiting the “Great Recession”

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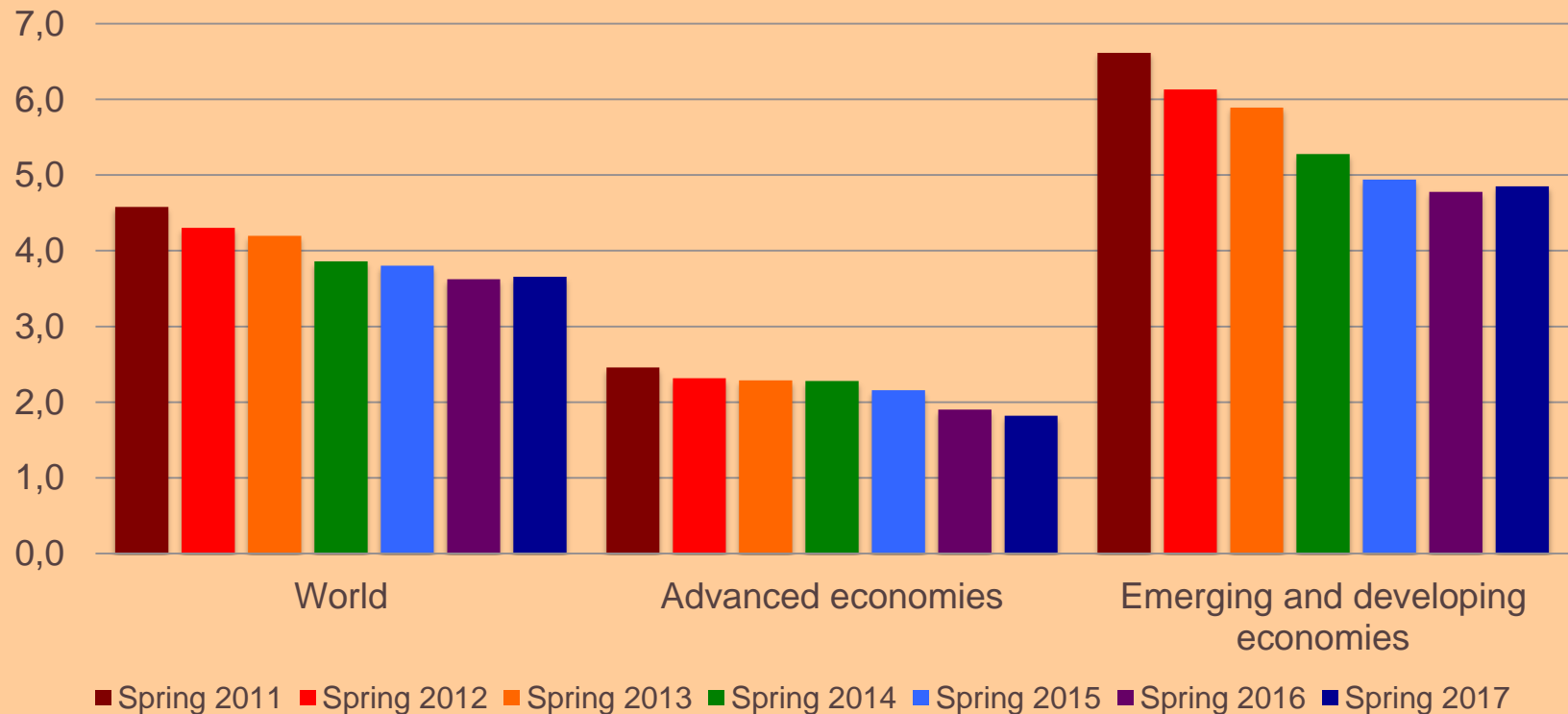
- The world economy is stabilising
- Growth is now widely shared
- Policy remains highly supportive
- But the recession was very costly



## 2. Exiting the “Great Recession”

### EXPECTATIONS STABILISE

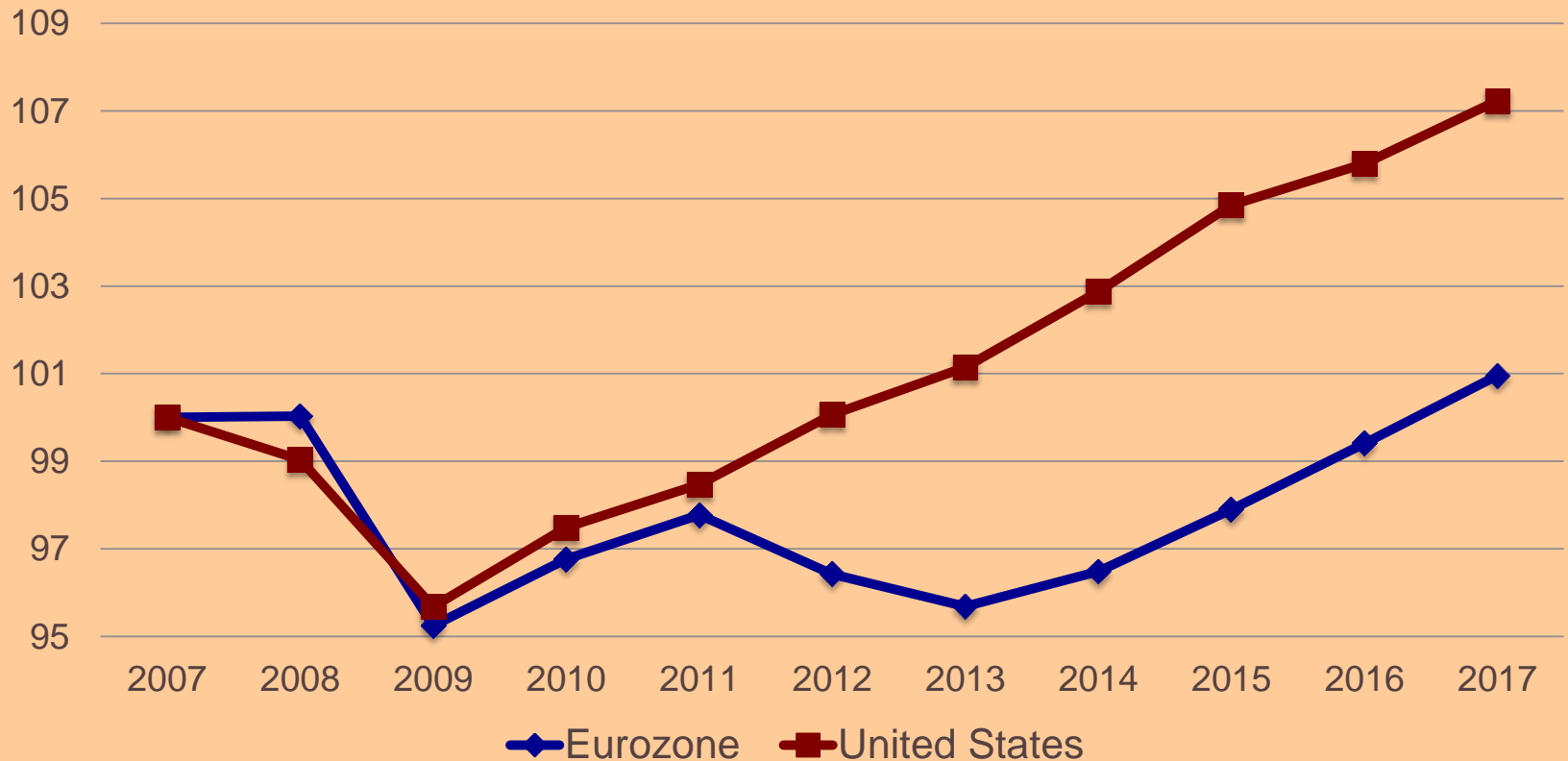
AVERAGE OF SUCCESSIVE SIX-YEAR FORECASTS  
(IMF World Economic Outlook)



# 1. Exiting the “Great Recession”

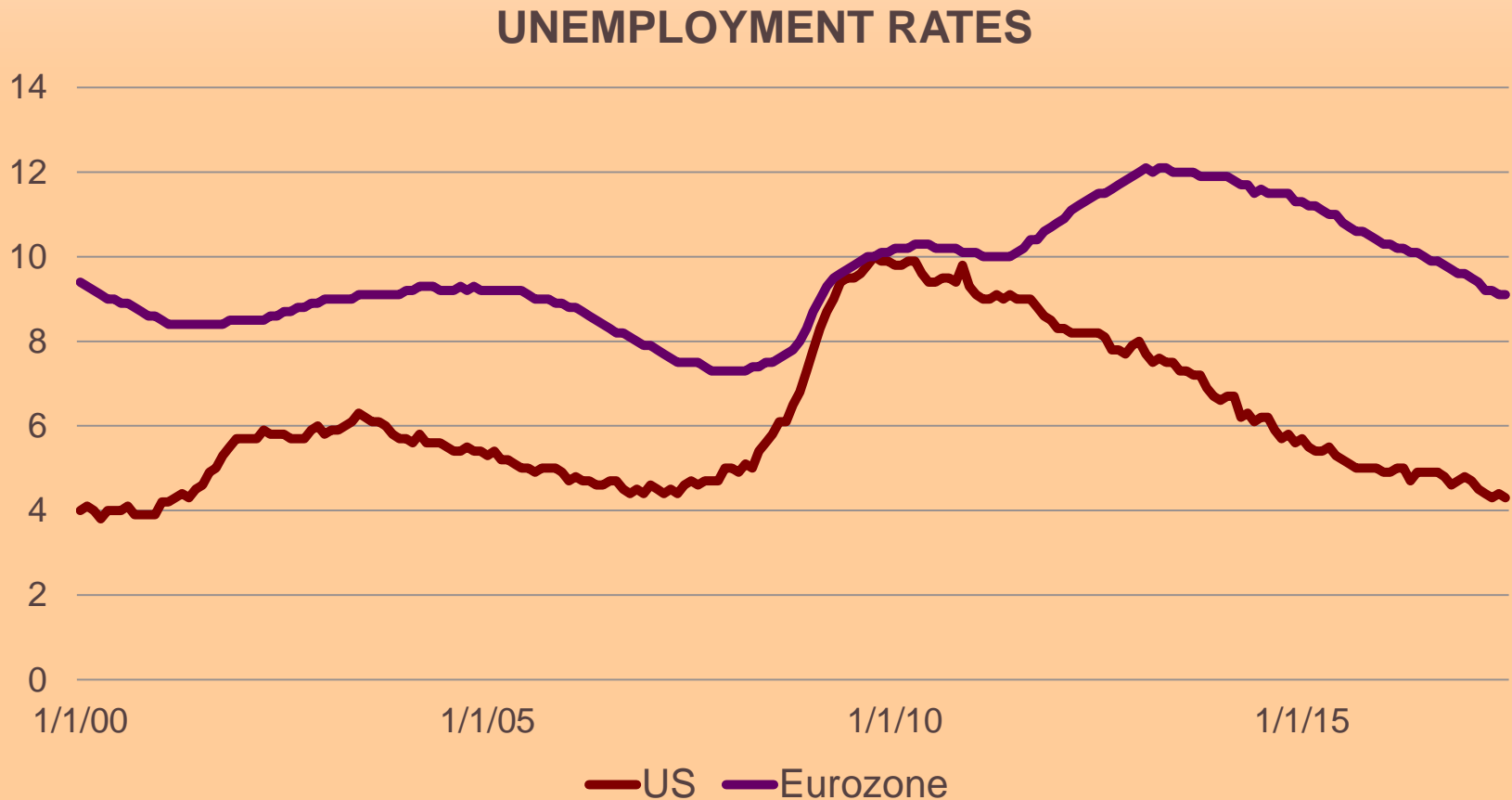
## RECESSION AND RECOVERY

REAL GDP PER HEAD (Conference Board)



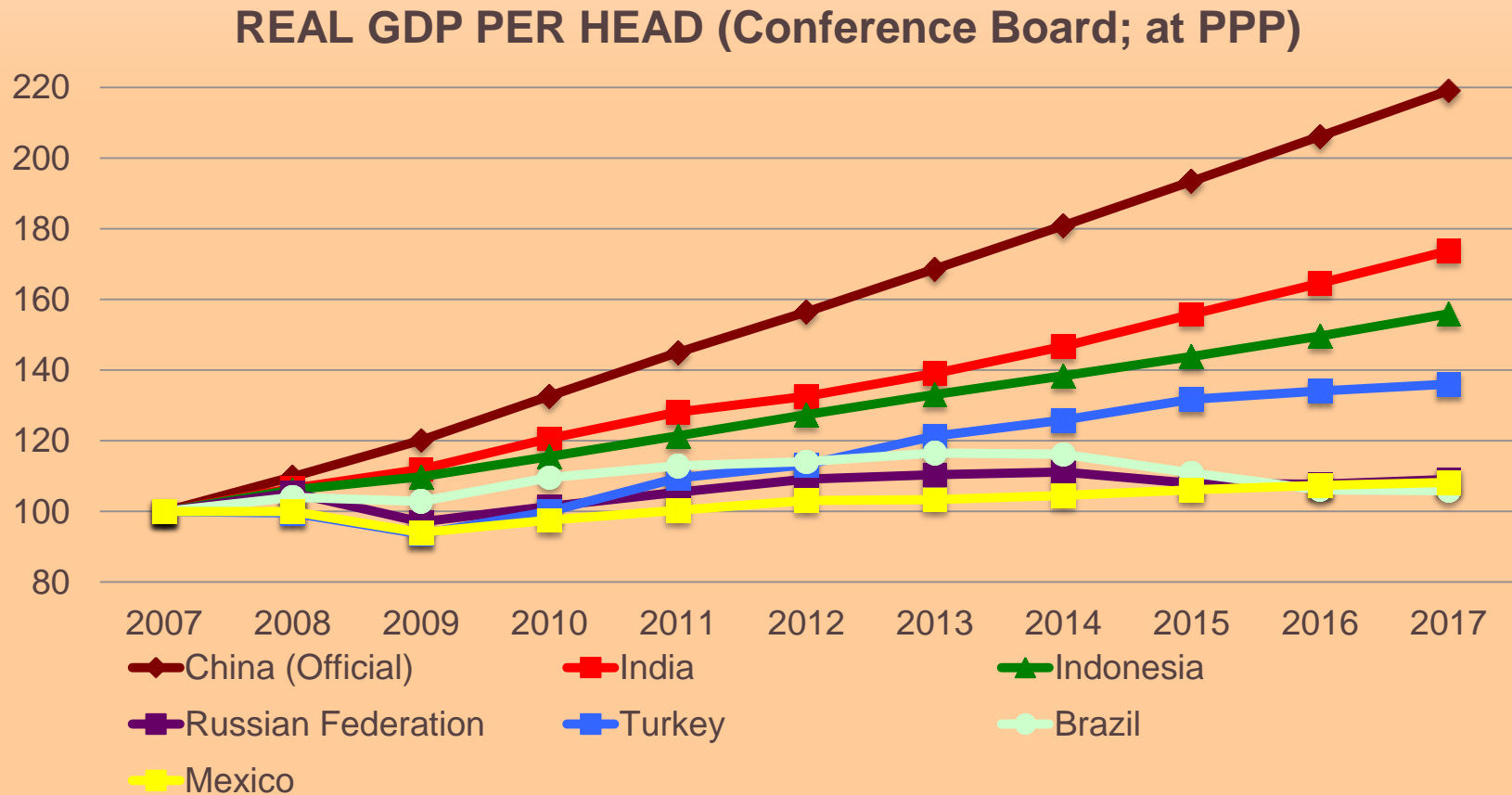
# 1. Exiting the “Great Recession”

## LABOUR MARKET SLACK IS GOING



## 2. Exiting the “Great Recession”

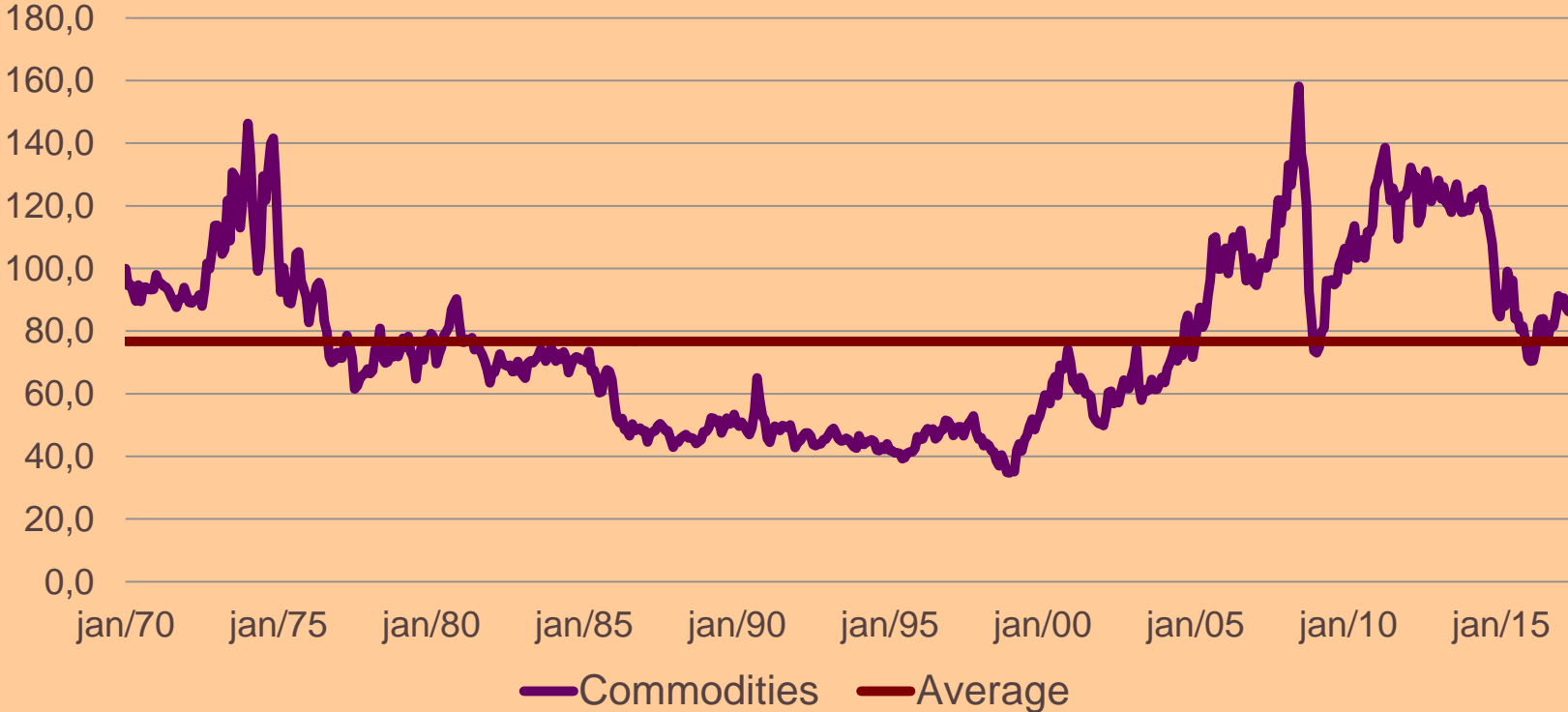
### DIVERGENCE AMONG EMERGING ECONOMIES



# 2. Exiting the “Great Recession

## COMMODITY PRICES NORMALISE

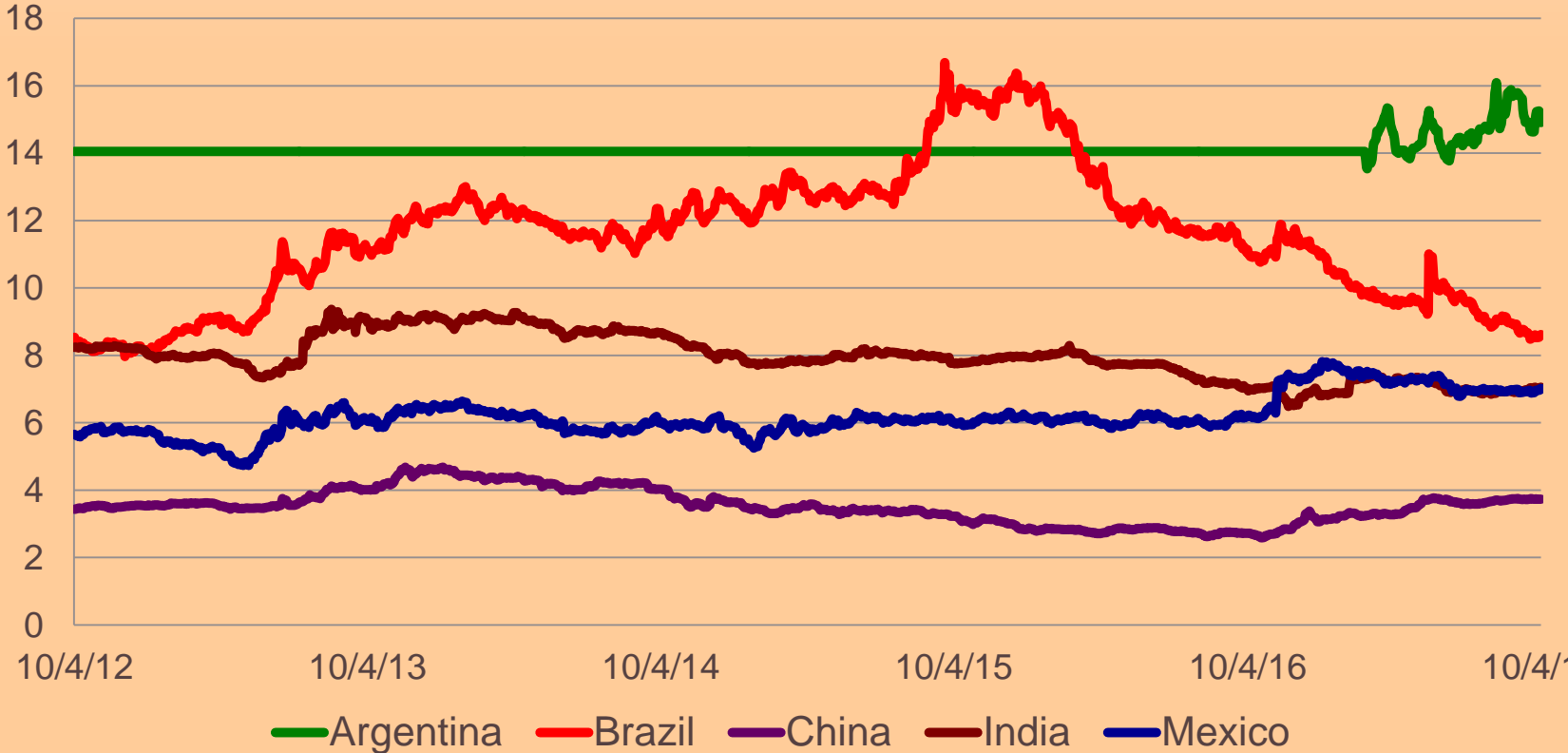
REAL COMMODITY PRICES (deflated by unit value of exports from manufacturing countries)(Goldman Sach)



# 2. Exiting the “Great Recession”

## BOND YIELDS NORMALISE

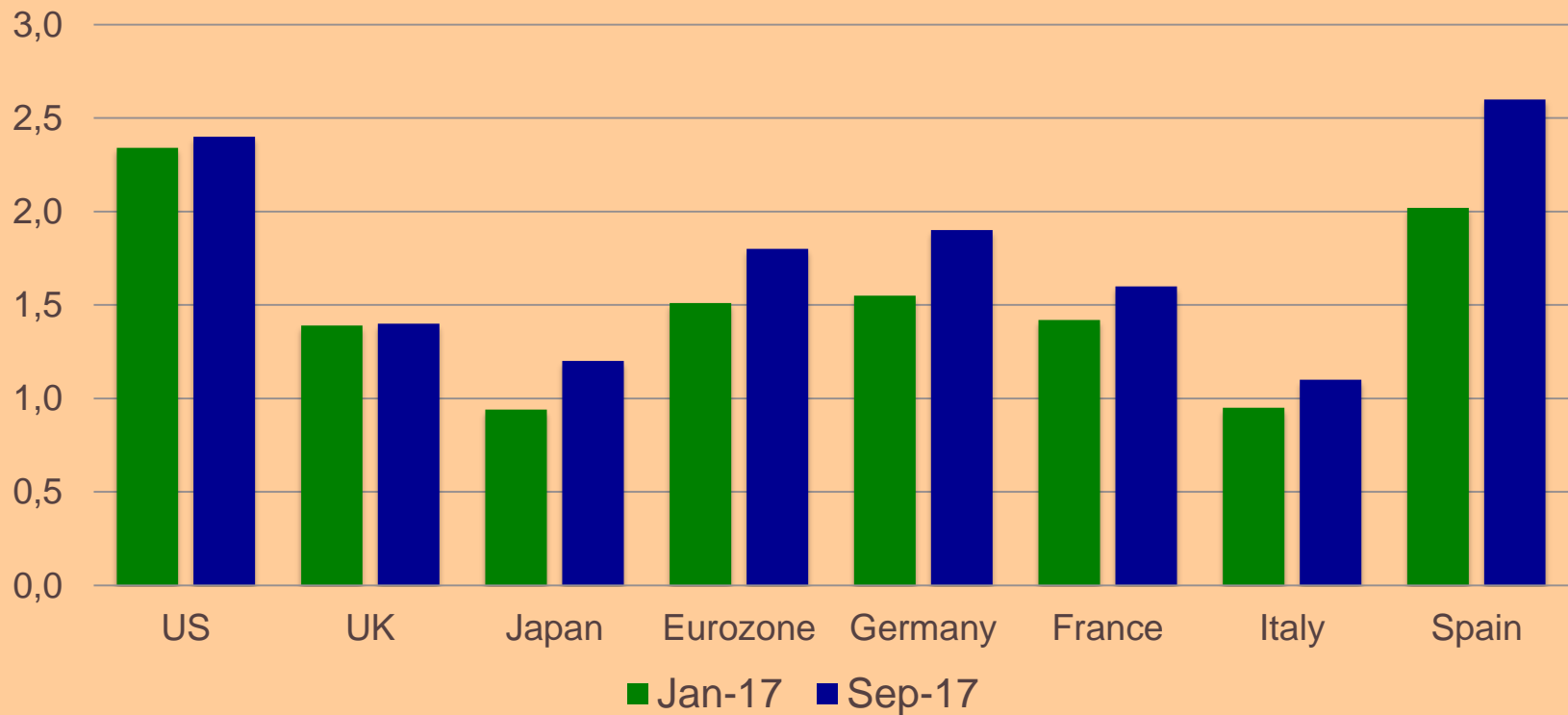
INTEREST RATES ON DOMESTIC CURRENCY BONDS



## 2. Exiting the “Great Recession”

### GETTING MORE OPTIMISTIC, EXCEPT FOR UK

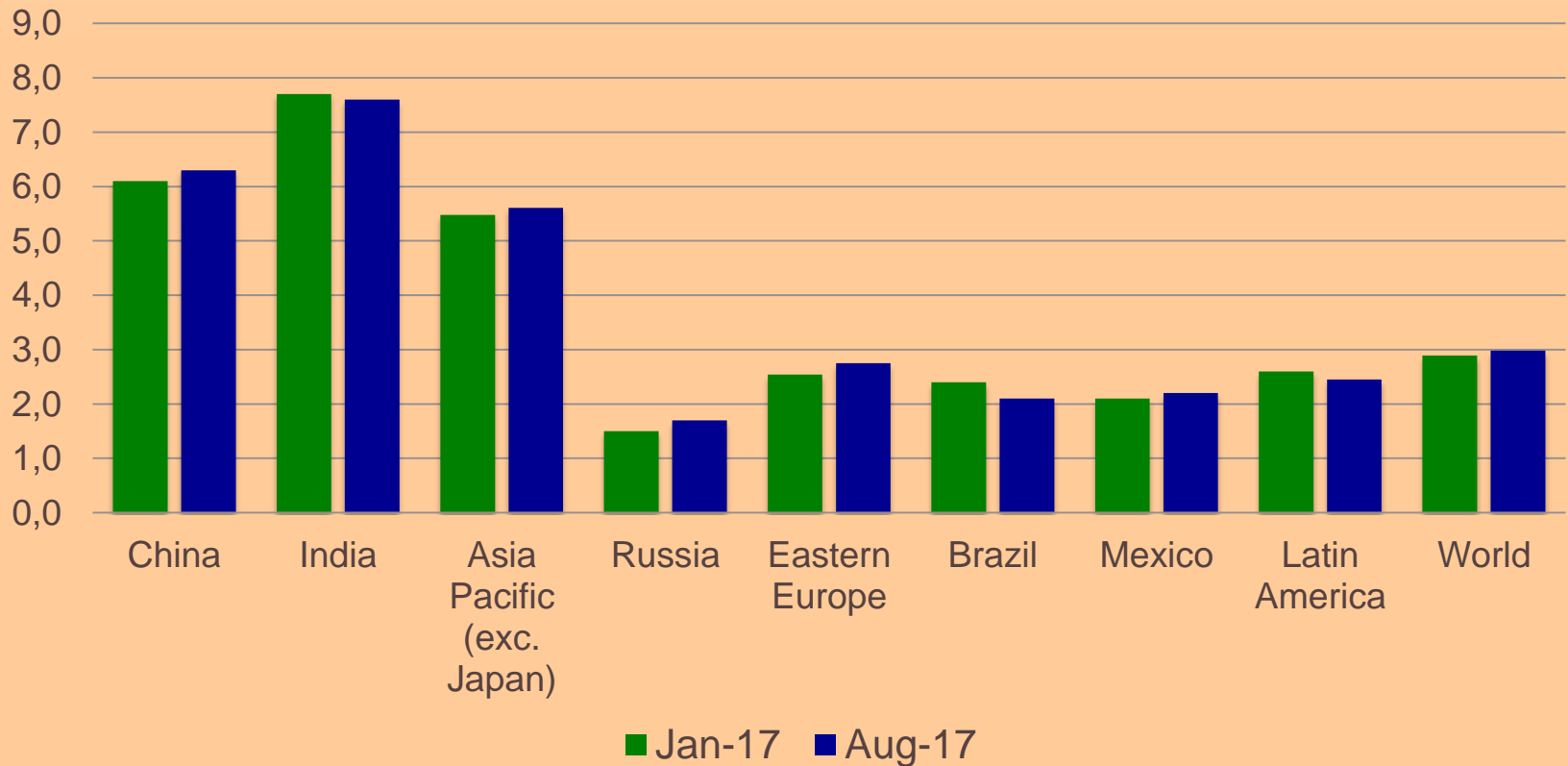
SUCCESSIVE CONSENSUS FORECASTS FOR GROWTH  
IN 2018



## 2. Exiting the “Great Recession”

### BETTER, BUT NOTHING TO WRITE HOME ABOUT

SUCCESSIVE CONSENSUS FORECASTS FOR 2018





# 3. Economic worries

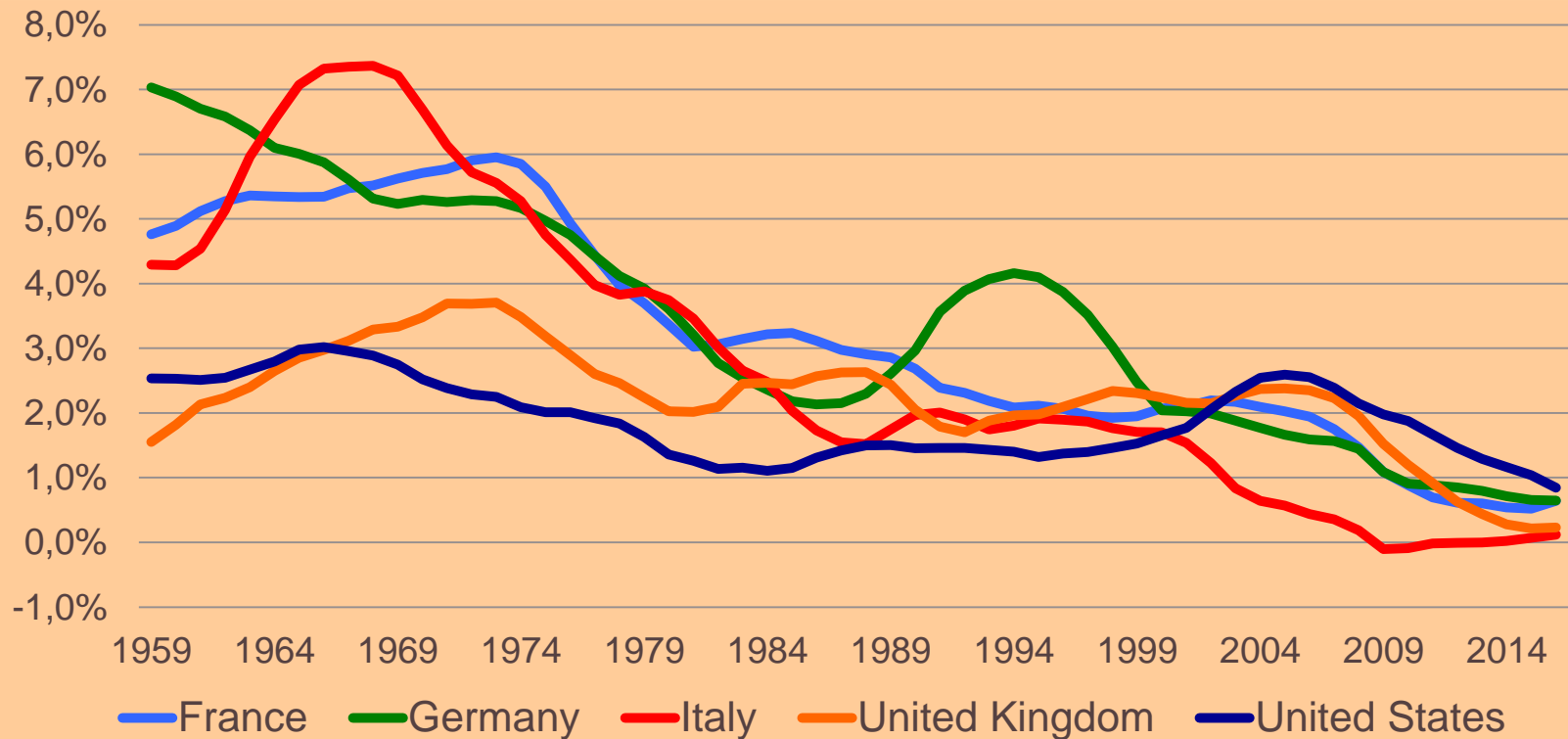
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- Supply
- Debt
- Inflation
- Asset prices
- China

# 3. Economic worries: potential supply

## DECLINING PRODUCTIVITY GROWTH

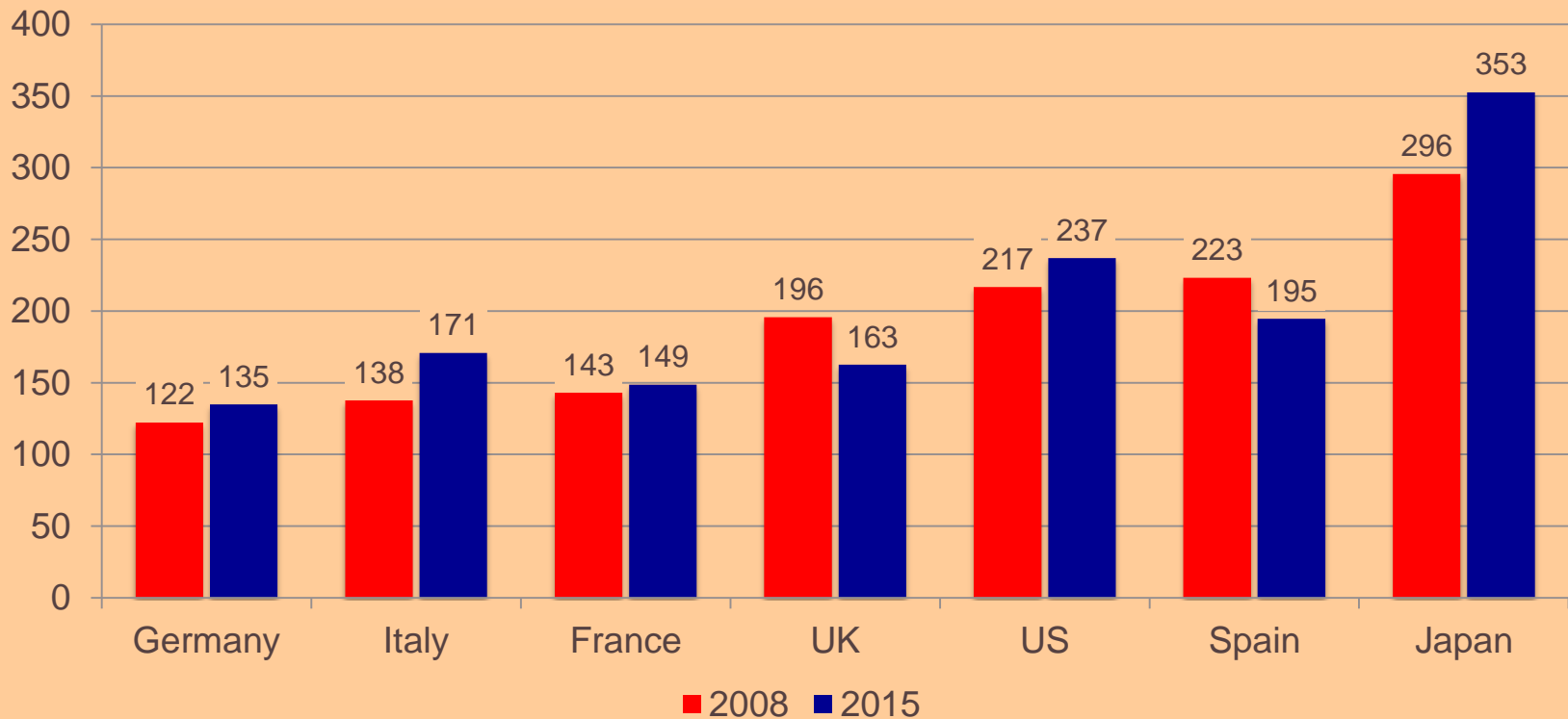
GROWTH OF LABOUR PRODUCTIVITY PER HOUR  
(previous ten years, fitted trend)(source: Conference Board)



### 3. Economic worries: debt

## THE DEBT OVERHANG

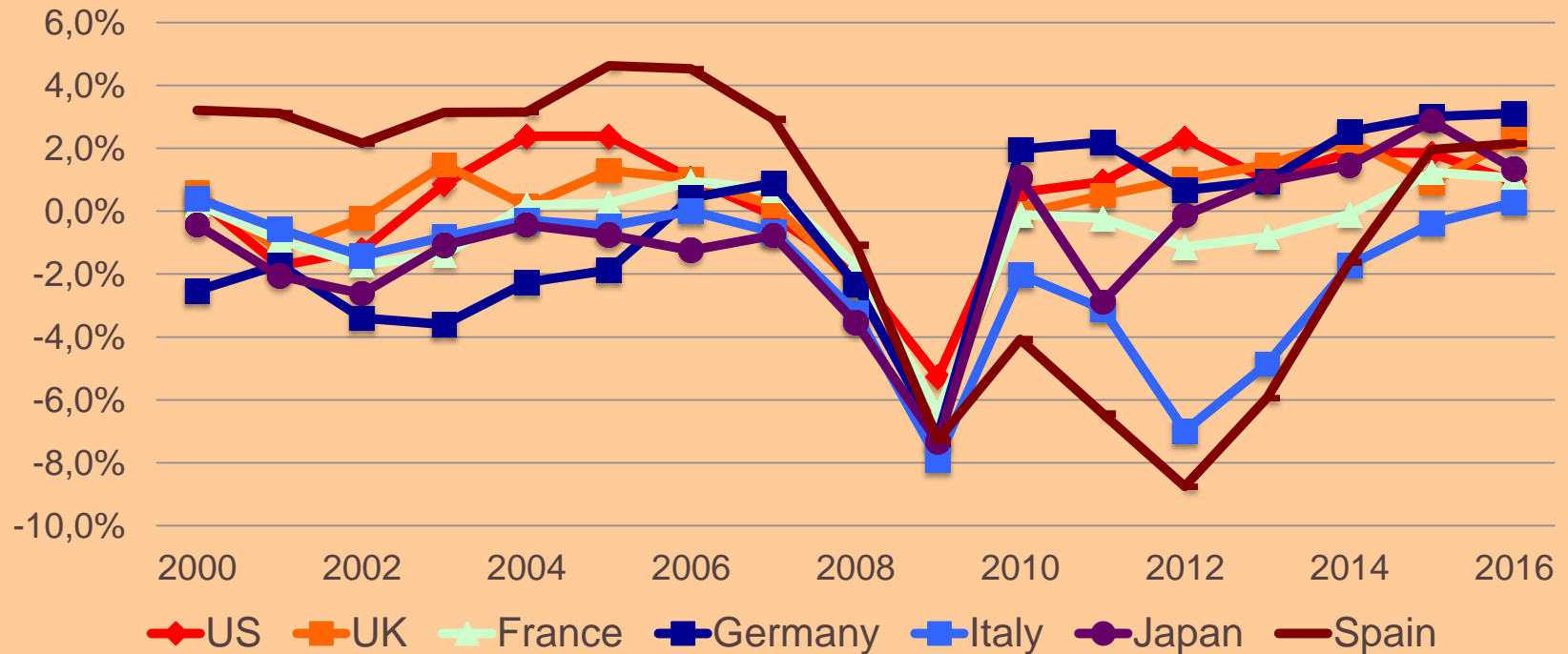
DOMESTIC CREDIT FROM FINANCIAL SECTOR OVER GDP  
(per cent) (World Bank)



# 3. Economic worries: managing debt

## MANAGING ECONOMIES WITH DEBT OVERHANGS

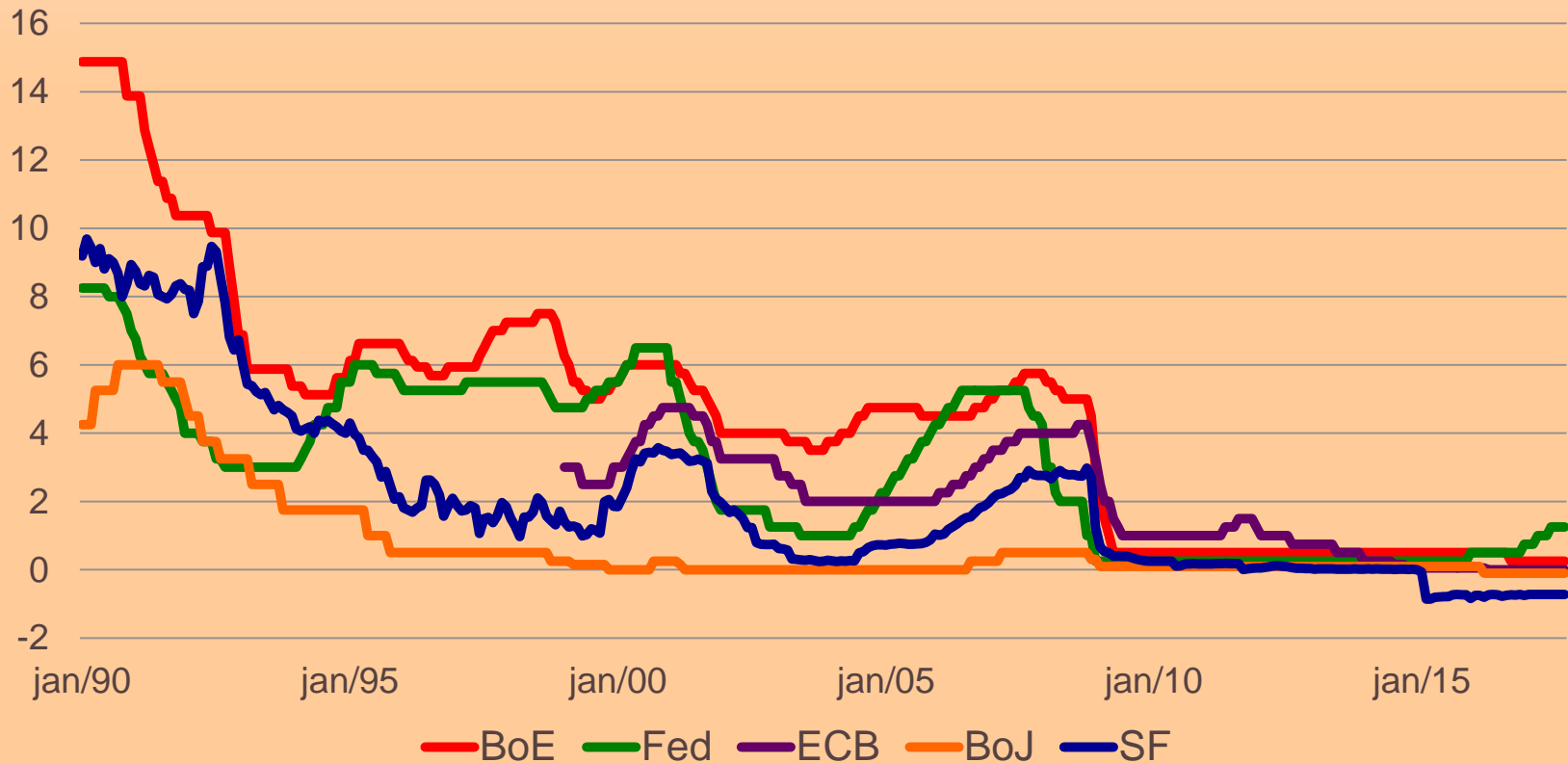
DIFFERENCE BETWEEN GROWTH OF NOMINAL GDP AND 10-YEAR GOVERNMENT BOND YIELD (percentage points)



### 3. Economic worries: demand

## CENTRAL BANKS STUCK ON ULTRA-LOW RATES

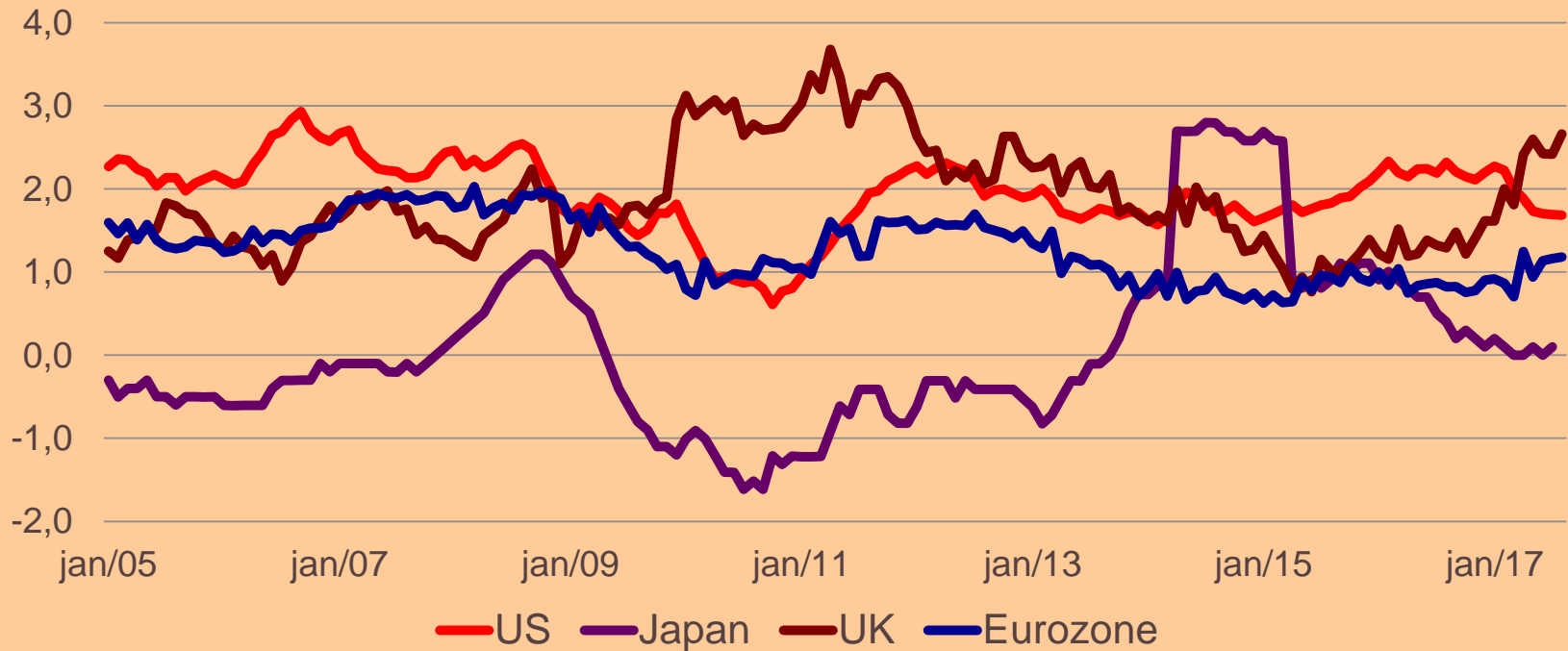
### CENTRAL BANK INTERVENTION RATES



# 3. Economic worries: inflation

## WILL INFLATION STAY LOW OR EXPLODE

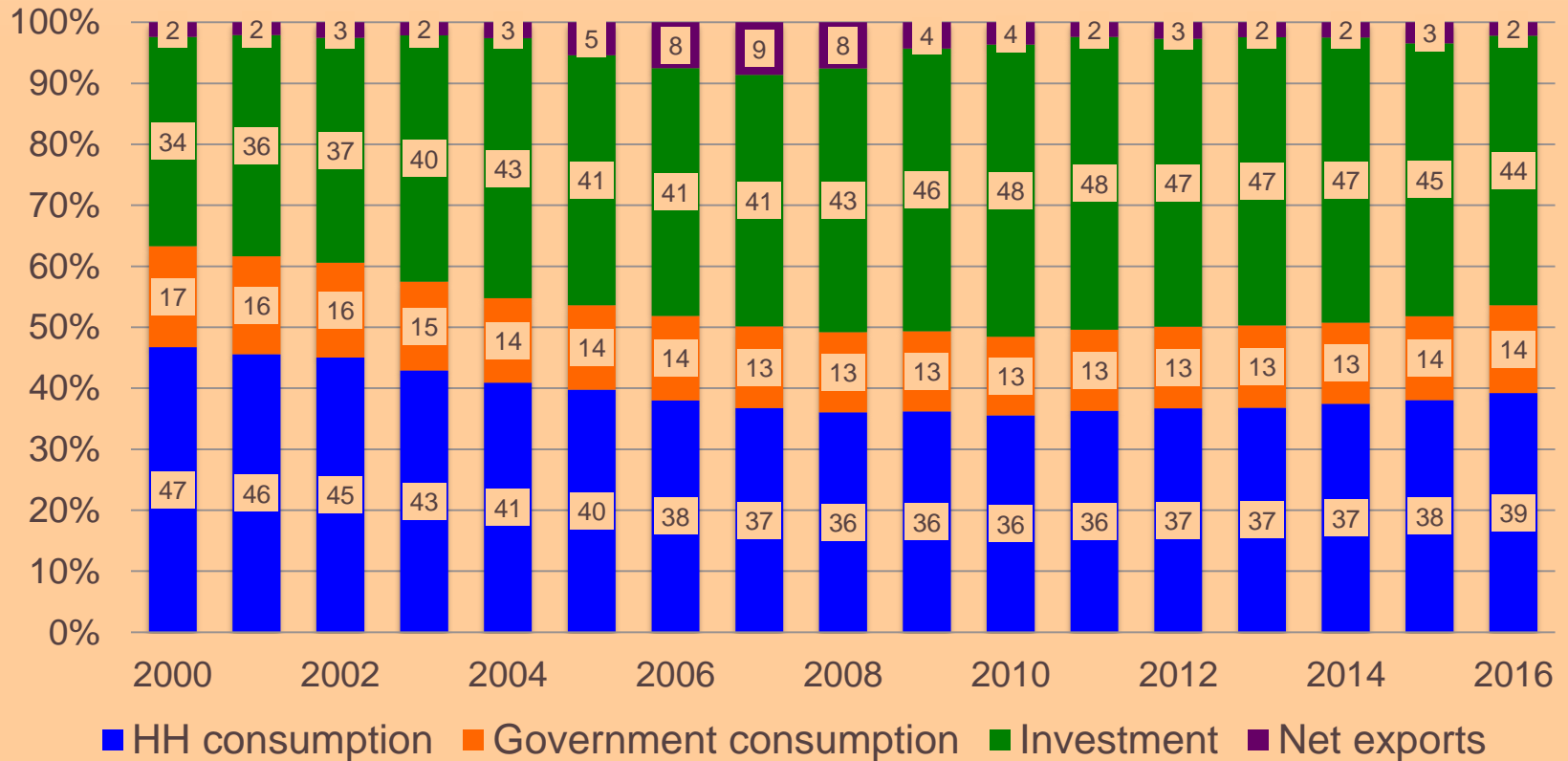
CORE CONSUMER PRICE INFLATION (excluding energy, food, alcohol and tobacco)(per cent)



# 3. Economic worries: China

## CHINA'S UNBALANCED ECONOMY

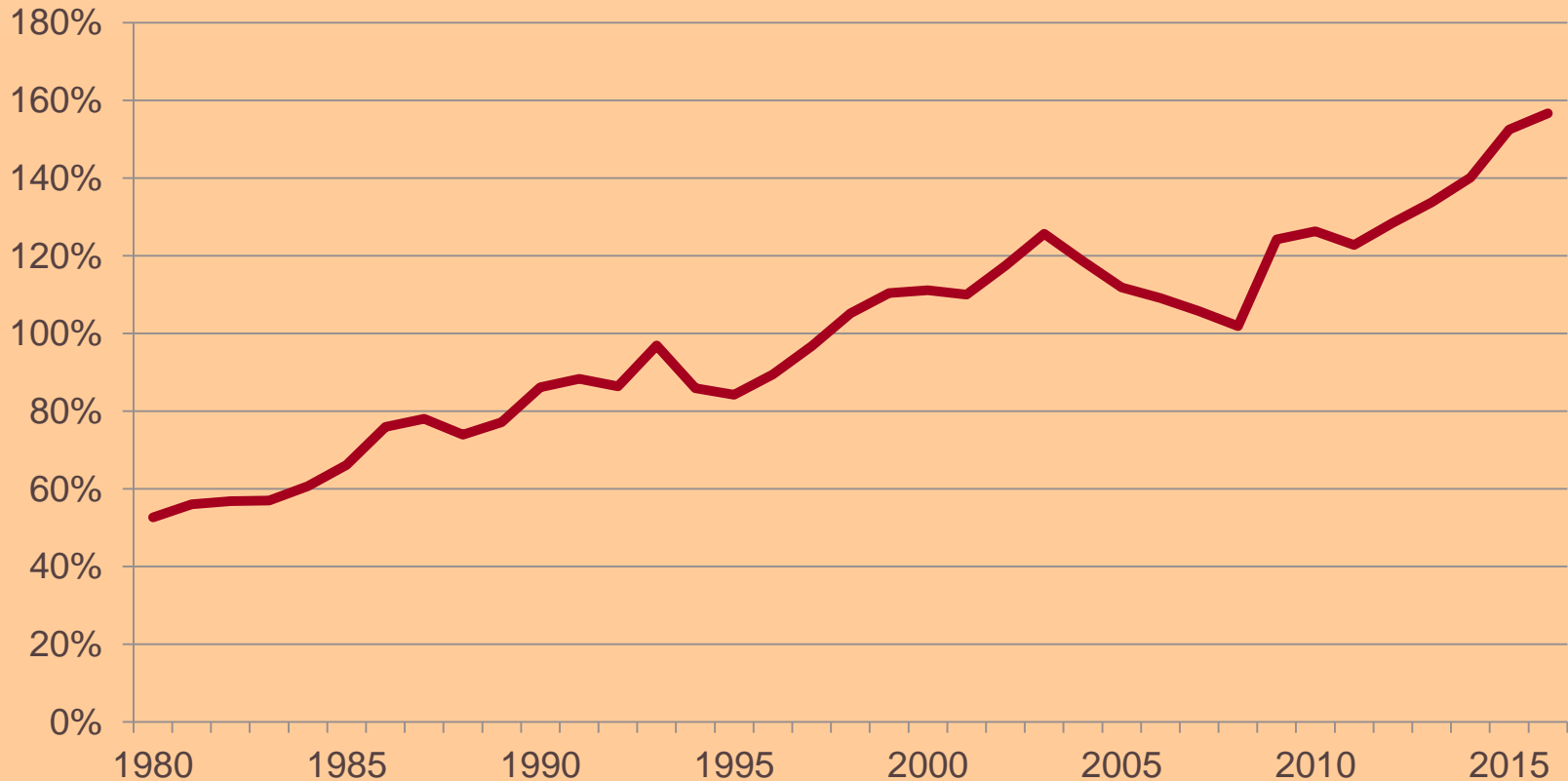
STRUCTURE OF CHINESE SPENDING (per cent of GDP)



# 3. Economic worries: China

## CHINA'S UNBALANCED ECONOMY

FINANCIAL CREDIT OVER GDP IN CHINA (World Bank)

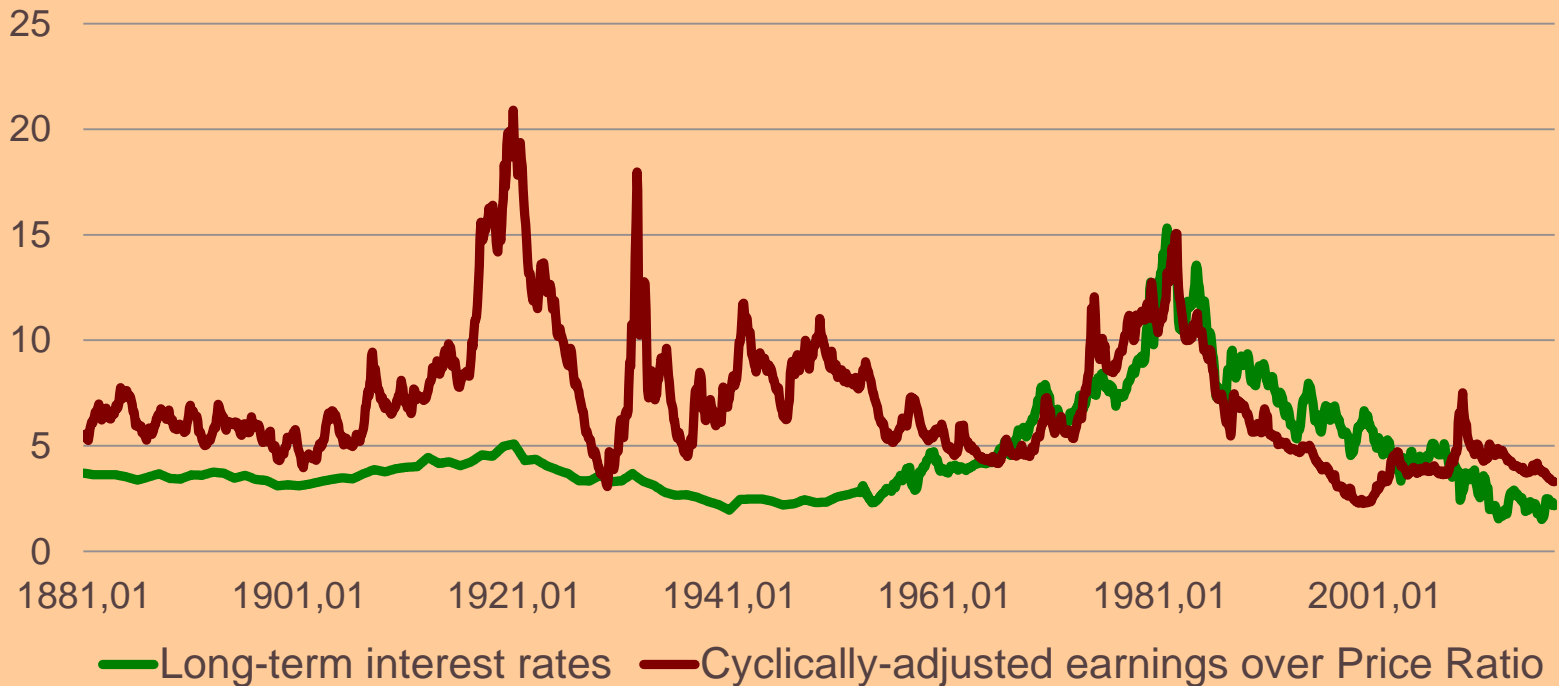




# 3. Economic worries: asset prices

## HOW OVERVALUED IS THE US MARKET?

SHILLER CYCLICALLY-ADJUSTED EARNINGS OVER PRICES AND LONG-TERM INTEREST RATES (per cent)  
(Source: Robert Shiller)



## 4. Political worries

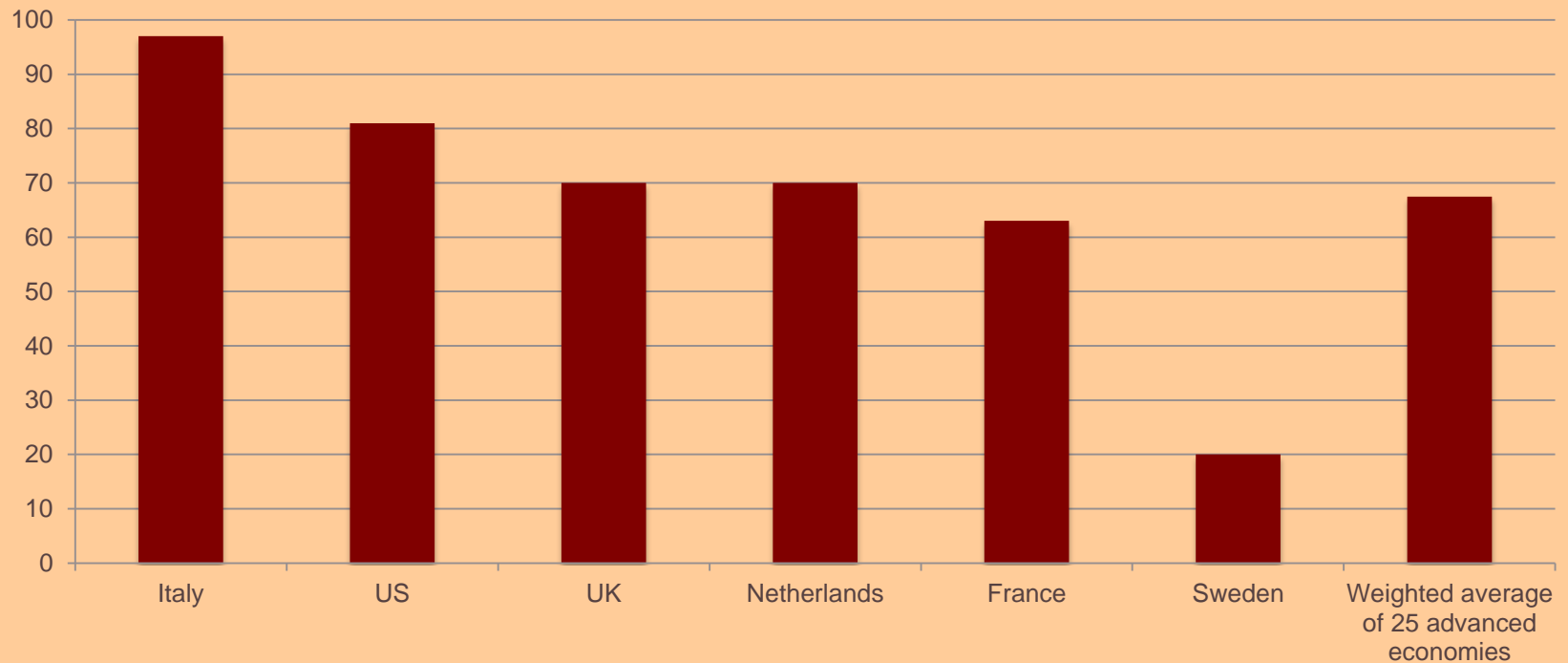
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- Populism and the crisis of democracy
- Trump and the end of US hegemony
- Brexit and the diminution of the EU
- Xi and the restoration of the communist party

# 4. Political worries: populism

## INCOMES

PROPORTION OF HOUSEHOLDS WITH FLAT OR FALLING REAL INCOMES FROM WAGES AND CAPITAL 2005-14 (Source: McKinsey)



# 5. Conclusions

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- The recovery is cyclical, not structural
- If things went well, productivity growth would recover, economies accelerate and interest rates “normalise”
- But there are also substantial risks: inflation and interest rate jumps; protectionism; asset price falls
- Secular stagnation is quite likely: low global growth, with low long-term yields, real and nominal
- The sources of China’s fragility are unresolved
- Geo-politics have become fragile