The Global Economy and Unconventional Policies

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Global Economic and Financial Trends

- Growth in the Global Economy
- Global Trade
- Monetary Policies & Financial Markets
- China: Adjustments & Spillovers
- Long-term Demographic Trends
Growth in the Global Economy

- Global Growth Projections
- Developed and Emerging Markets
- Investment as a Share of GDP
- Corporate Profit Margins
Global GDP Growth

Real GDP Growth, Select Countries

Global GDP Shares

1990

- United States: 28%
- EU-27: 22%
- Japan: 16%
- Latin America: 10%
- China: 7%
- India: 4%
- Other Emerging Economies: 7%
- Other Advanced Economies: 22%

2016 IMF Forecast

- United States: 16%
- EU-27: 23%
- China: 18%
- India: 17%
- Latin America: 7%
- Other Advanced Economies: 16%
- Other Emerging Economies: 8%

Source: IMF, WEO Database, last update Apr 12 2016, WEO
Real GDP Growth, Developed and Emerging countries

Source: IMF. 2016 is IMF forecast.
Investment as a Share of GDP

Corporate Profit Margins, Developed and Emerging countries

(Profit as a percent of revenue)

Global Trade and Balance of Payments

• The Volume of World Trade
• China and the Trading System
• Current Accounts Imbalances
World Trade Volume

China’s Role in Global Trade (bill. Usd)

U.S. Exports by Destination

2000
- EU, 48.1%
- China, 7.6%
- Asia ex China, 44.3%

2007
- EU, 47.4%
- China, 16.1%
- Asia ex China, 36.5%

2016
- EU, 45.1%
- China, 22.6%
- Asia ex China, 32.3%

Source: US Department of Commerce, Last Observation: Feb 2016
European Union Exports by Destination

**2000**
- US, 56.6%
- China, 5.2%
- Asia ex China, 38.2%

**2007**
- US, 48.9%
- China, 12.6%
- Asia ex China, 38.4%

**2015**
- US, 41.0%
- China, 20.4%
- Asia ex China, 38.6%

Source: Eurostat, Last Observation: Dec 2015
Unemployment, Monetary Policies, and Financial Markets

• Unemployment: US & Euro area
• Central Bank Policy Rates
• Central Bank Balance Sheets
• Sectoral Leverage and Deleverage
• Forward Guidance
• Financial/Real Markets Disconnect
Unemployment Rate: US and Euro Area

Source: Eurostat and BLS; Last observation for Euro area February 2016, For US, March 2016
Unemployment rates: Euro area

Source: Eurostat. *Latest for Greece is December 2015, for all others is February 2015.
Central Bank Policy Interest Rate

Total Assets of Key Central Banks (indexed levels)

Current Assets
% of GDP
- Fed: 24.0%
- ECB: 29.3%
- BoJ: 81.3%

Current Assets
Billions of $
- Total: 11,517
  - Fed: 4,483
  - ECB: 3,351
  - BoJ: 3,683

Total Assets of Key Central Banks as a Share of GDP

Composition of Federal Reserve Assets

Composition of ECB Liquidity Facilities

Composition of BoJ Assets

Note: Prime Minister Abe assumed office in December 2012
Source: BoJ, Last Observation: March 2016
Household Debt to Disposable Income

Source: Haver analytics; last observation Dec 15 (US), Sep 15 (Euro area), Mar 15 (Japan).

Japan: 124.4%
U.S.: 104.7%
Euro Area: 103.8%
US: Gross Debt Outstanding by Sector

Source: Haver analytics; last observation Q4 2015.
Euro Area: Gross Debt Outstanding by Sector

Source: Eurostat; last observation Q3 2015.
Japan: Gross Debt Outstanding by Sector

Source: Haver analytics; last observation Q3 2015.
FEDERAL RESERVE’s Forward Guidance

“In determining whether it will be appropriate to raise the target range at its next meeting, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation…The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.”

October 28, 2015

“In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation…In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.”

FOMC statement, March 16, 2016
Bank of England’s Forward Guidance

“The MPC sets policy to achieve the 2% inflation target, and, subject to that, to support the Government’s economic policies, including those for growth and employment. Despite the sharp fall in unemployment, there remains scope to absorb spare capacity further before raising Bank Rate. When Bank Rate does begin to rise, the appropriate path so as to eliminate slack over the next two to three years and keep inflation close to the target is expected to be gradual.”

-Minutes of the MPC meeting 6 February 2016, released February 19, 2016

“…Returning inflation to the 2% target requires balancing the drag from external factors against increases in domestic cost growth. Fully offsetting that drag over the short run would, in the MPC’s judgement, involve too rapid an acceleration in domestic costs, one that would risk being unsustainable and would lead to undesirable volatility in output and employment. Given these considerations, the MPC intends to set monetary policy to ensure that growth is sufficient to return inflation to the target in around two years and keep it there in the absence of further shocks….”

-Minutes of the MPC meeting March 17, 2016
ECB’s and BoJ’s Forward Guidance

**ECB**
“...looking ahead, taking into account the current outlook for price stability, the Governing Council expects the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of our net asset purchases... Adding to the measures taken since June 2014, with today’s comprehensive package of monetary policy decisions we are providing substantial monetary stimulus to counteract heightened risks to the ECB’s price stability objective. While very low or even negative inflation rates are unavoidable over the next few months, as a result of movements in oil prices, it is crucial to avoid second-round effects by securing the return of inflation to levels below, but close to, 2% without undue delay.”

-ECB President Mario Draghi, Introductory statement, March 10, 2016

**BOJ**
“The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it is judged necessary for achieving the price stability target.”

-Statement of Monetary Policy, March 15, 2016
Source: Bloomberg and IMF. Real GDP growth: 2016 is IMF forecast. MSCI: Last observation April 18, 2016.
Developed Countries Real GDP Growth & Financial Markets

Source: Bloomberg and IMF. Real GDP growth: 2016 is IMF forecast. MSCI: Last observation April 18, 2016.
Emerging Countries Real GDP Growth & Financial Markets

Source: Bloomberg and IMF. Real GDP growth: 2016 is IMF forecast. MSCI: Last observation April 18, 2016.
Global Equity Markets

(price-Usd, indexed: Sep 2008 = 100)

Developed, Apr 5, 16: 126.1
Emerging, Apr 5, 16: 95.0

China: Adjustments & Spillovers

- Real GDP Growth
- Real Investment
- Commodity Prices
- Emerging Markets Growth, Profit Margins & Capital Flows
China: Real GDP Growth

Source: SSB. Last observation: 2016 1Q.
China: Fixed investment by sector

Price of Brent Oil

Metals prices

Index, December 1989 = 100

Food prices

Index, 2005 = 100

Emerging markets real GDP growth

Emerging markets (EM) 3.4%
Emerging Asia 5.9%
Emerging Latin America -1.4%
Emerging Europe, Middle East and Africa (EMEA) 0.5%

Source: J.P. Morgan. Last observation: 2015Q4
Corporate profit margins, select regions

(Profit as a percent of revenue)

Emerging Markets
Emerging Asia
Emerging Latin America
Emerging Europe and MENA

EMEA EM: 9.3%
EM Asia: 10.8%
EM: 9.4%
EM Latam: 5.3%

Source: J.P. Morgan. Last observation: 2015Q2
Emerging Markets: Net Capital Inflows

Source: IIF, Last Update: Jan 2016 (2015 is IIF estimate)

bn USD, resident outflows exclude reserves; 2015 is IIF estimate
Emerging Markets: Equity Markets

Long-Term Demographic Trends

• Growing Population in Developing Countries

• Aging Population in Developed Countries
World Demographic Challenge

Change in population, 2010-2030 (millions)

Source: UN Populations Division, last update 2010

Projected change in population
from 2010 - 2030:

2010: 7001M
2030: 8517M

1516M
Developing Countries Demographic Challenge

Change in population, 2010-2030 (millions)

Source: UN Populations Division, last update 2010
Projected change in population from 2010 - 2030:
2010: 5712M
from 2010 - 2030: 1426M
2030: 7138M
**Developed Countries Demographic Challenge**

Change in population, 2010-2030 (millions)

- 0-9: -30
- 10-19: -20
- 20-29: -10
- 30-39: 0
- 40-49: 10
- 50-59: 20
- 60-69: 30
- 70-79: 40
- 80+: 50

Source: UN Populations Division, last update 2010

Projected change in population:
- 2010: 1289M
- from 2010 - 2030: 90M
- 2030: 1379M