Global economy continues to lose momentum…

World: GDP & PMI

Source: Oxford Economics/Haver Analytics/Markit
... mainly reflecting trade and industrial developments

**World trade and world trade indicators**

% year 3mma (volume)

Source: Oxford Economics/Nederland CPB
Risk to the outlook are tilted to the downside

Looking ahead to the next two years, how do you view the risks to our baseline forecast for global growth?
Percentage of respondents

Source: Oxford Economics Global Risk Survey
So is it time to panic??
Eurozone weakness coming from Germany & Italy

Eurozone: GDP growth
% q/q & ppts contribution

Source: Oxford Economics/Haver Analytics
UK investment already suffering from Brexit anxiety

**UK: Business investment**

- Range of G7 countries exc. UK
- UK

% year

Source: Oxford Economics calculations using data from Haver Analytics
No-deal Brexit hits UK much harder than rest of EU

Europe: Impact on GDP of 'no deal' Brexit

<table>
<thead>
<tr>
<th>Country</th>
<th>% difference in level of GDP in Q4 2021 relative to baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>-2.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>-1.5</td>
</tr>
<tr>
<td>Poland</td>
<td>-0.6</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>-0.5</td>
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<tr>
<td>Slovakia</td>
<td>-0.5</td>
</tr>
<tr>
<td>Croatia</td>
<td>-0.5</td>
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<tr>
<td>Bulgaria</td>
<td>-0.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>-0.5</td>
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<tr>
<td>Greece</td>
<td>-0.5</td>
</tr>
<tr>
<td>Hungary</td>
<td>-0.4</td>
</tr>
<tr>
<td>Netherlands</td>
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<td>Romania</td>
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<tr>
<td>Portugal</td>
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<tr>
<td>France</td>
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<tr>
<td>Germany</td>
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<td>Belgium</td>
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<td>Italy</td>
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<td>Austria</td>
<td>-0.3</td>
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</tbody>
</table>

Source: Oxford Economics
China slowdown continues despite policy easing

- Economic activity slowed in July: consumption and investment decelerated, credit growth also slowed. Export growth picked-up in July, before the re-escalation in US-China trade tensions.
- Domestically it appears that the impact of the policy easing so far has remained muted.
- We maintain our GDP growth forecast at 6.2% this year and 5.9% in 2020 but downside risks to our forecast have risen, especially if policymakers do not step up support.
LatAm: Ongoing downgrades amid political turbulence

Latin America: GDP growth forecast for 2019

- Peru: 3.5%
- Colombia: 2.8%
- Chile: 2.6%
- Latin America*: 1.3%
- Mexico: 1.0%
- Brazil: 0.5%
- Argentina: -1.4%
- Venezuela: -39.0%

*(Excl. Venezuela)

Source: Oxford Economics
Longest US expansion on record…

US: The longest economic expansion on record

Number of months, Trough to Peak

From June 2009 to August 2019

Source: Oxford Economics, NBER
…but also the slowest

US: Expansions and Recessions

%, compound annual growth rate

Source: Oxford Economics/Haver Analytics
Labor market remains solid but it is maturing

![Graph of US: Nonfarm payrolls]

- **July 2019**
  - Monthly change: 164,000
  - 3-months average: 140,000
  - 12-months average: 187,000

- **106 consecutive months of expansion!**

Source: Oxford Economics/Haver Analytics
Wage growth anchored above 3%, but not accelerating

- Hourly earnings grew 3.2% y/y in July—12th consecutive month at 3%+
- ECI for private wages and salaries 3.0% y/y in Q2—near the fastest this cycle
Consumer confidence still elevated, but volatile

**US: Consumer attitudes**

- Red line: Consumer confidence (LHS)
- Blue line: Consumer sentiment (RHS)

- "Trump bump"
- Government shutdown
- Trade concerns

Source: Oxford Economics/Haver Analytics
Spending is expected to gradually cool in line with income.
Housing sector remains generally soft...

US: Residential investment contribution to growth

- Contribution to real GDP growth
- 12-month moving average

Five consecutive quarters of contraction

Source: Oxford Economics/Haver Analytics

Questions:
events@oxfordeconomics.com
Manufacturing sector activity has stalled

US: ISM new orders lead core orders capital goods orders

- ISM new orders index (LHS, 3-month lead)
- Core capital goods ex aircraft (RHS)

Source: Oxford Economics/Haver Analytics
Business confidence has fallen back
Business investment poised to cool

US: Business investment

% year

Source: Oxford Economics

Forecast
What should we worry about?
Fiscal stimulus has almost entirely dissipated

US: Contribution of fiscal stimulus to growth

Real GDP growth, %

- Impact of BBA, 2018
- Impact of TCJA, 2017

Source: Oxford Economics

BBA, 2018 = Bipartisan Budget Act of 2018
TCJA, 2017 = Tax Cuts and Jobs Act of 2017

*Fiscal cliff risk if Congress hadn’t extended BBA spending
A relentless rise in tariffs

US: Average tariff rate
% of 2018 import value

Source: Oxford Economics
Increased uncertainty amid rising protectionism

US: Increased trade policy uncertainty

Ratio of Trade Policy Uncertainty/Economic Policy Uncertainty

(Normalized data to 2010=1)

Source: Data from PolicyUncertainty.com, Methodology by Baker, Bloom, Davis (2016)
No one wins trade wars… not even the bystanders!

US-China 25% tariffs to weigh on global activity

Real GDP impact, level, %*

* Dark bars show the impact of existing bilateral tariffs while shaded bars reflect the impact of raising the 10% tariffs on $200 billion to 25% (and China retaliating)

Source: Oxford Economics
Zooming in on the risk to the US economy

Economic impact of China tariffs

Real GDP impact, % relative to no tariff baseline

-0.8
-0.7
-0.6
-0.5
-0.4
-0.3
-0.2
-0.1
0.0

- 2018
- 2019
- 2020
- 2020 w/ add'l 15% on $300bn & increase to 30% on $250bn
- 2020 w/ new tariffs + confidence shock

Source: Oxford Economics
Financial conditions have tightened recently

US: Oxford Economics' Financial Conditions Index

0 = Average stress

Dec 21: (Williams) Fed is "listening" to markets
Dec 19: (Powell) Balance sheet on "autopilot"

Jan 4: (Powell) Fed is "flexible"
Jan 30: (FOMC) Fed "patient"

May 16: (Trump) Tariff threats
Nov 28: (Powell) "Just below" neutral

Mar 20: (FOMC) No rate hikes in 2019
Oct 3: (Powell) "Long way" from neutral

Jun 19: (FOMC) Fed will "act as appropriate"
Jul 31: (FOMC) 25bp rate cut

Trade war
Confusing Fed
Fed impotence

Source: Oxford Economics
New data reveal a softer economic picture

US: Revisions reveal a softer economy

y/y % Q4/Q4

- **Employment**: Pre-revisions 1.8%, Post-revisions 1.6%
- **Profits**: Pre-revisions 7.4%, Post-revisions 4.2%
- **GDP**: Pre-revisions 3.0%, Post-revisions 2.5%

Source: Oxford Economics/Haver Analytics
This will prompt Fed action: 2 more rate cuts in 2019

US: Federal funds rate & GDP expectations

- Real GDP growth
- Fed's "dot plot"
- Oxford Economics (Sep 2019)

Source: Oxford Economics/Federal Reserve
While yield curve inversions remain reliable recession predictors, we caution that this inversion comes amidst a **global flight to safety** (leading to over $16 trillion in negative yielding debt) and **central banks easing globally**.

Further, the signal from US yield curve inversions are long and variable with recessions following inversions by 10mo to 3 yrs.
Beware of the recession bias!

US: The only thing to fear is fear itself

Google searches for the word "recession" *

Source: Oxford Economics

* 100 indicate peak search on Google
No global recession for now but ‘slower for longer’

- **US economy grew 2.9% in 2018** matching its strongest performance in over a decade. *Growth expected at 2.3% in 2019 & 1.8% in 2020.*

- **Solid labor market conditions and still-elevated private sector confidence** support domestic outlays, but pace is cooling.

- **Fiscal boost has dissipated & monetary policy support is limited.**

- **Numerous crosscurrents will constrain growth** including weakened global economy, trade policy uncertainty & tighter financial conditions.

- **Trade tensions vis-à-vis China are concerning – confidence channel!**

- **Fed expected to proceed with three 25bp “immunization shots” in July, September and December**

- **Beware of recession bias !**
## Global forecast

<table>
<thead>
<tr>
<th>Country</th>
<th>Real GDP (% Year)</th>
<th>Inflation (% Year)</th>
<th>Short-term rates (Q4 EOP)</th>
<th>10-yr bond yields (Q4 EOP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2.9</td>
<td>2.3</td>
<td>1.8</td>
<td>2.4</td>
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<tr>
<td>Eurozone*</td>
<td>1.9</td>
<td>1.2</td>
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<tr>
<td>UK</td>
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<td>Japan</td>
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<td>China</td>
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<td>World</td>
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<td>2.6</td>
<td>2.7</td>
<td>3.2</td>
</tr>
</tbody>
</table>

*For Eurozone long-term rates we report German 10-year yields.