STATE OF THE GLOBAL ECONOMY

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Uncertain Outlook

- Uncertainty dominates global outlook. Global demand weakens.

- Focus on new growth engines. Future development being shaped by how new technologies are employed.

- Record high global debt: $260 trillion.

- $2.6 trillion worth of debt to be refinanced in 2019.
**Growth Engines**

• New growth engines at center of expectations. What will be China’s role?
• Whose companies will dominate?

• Business-investor confidence: Uncertain due to ongoing tensions!

• 5G Network, Artificial intelligence, electric autos; Robotics, driverless cars: Key engines of growth.

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**Era of Change**

Dramatic changes underway. Reversal of 70-years advocating lowering tariffs; promoting globalization.

U.S. changes approach to global trade relationships.

U.S. pledges review & rewrite of global trading system. America First! Turns insular.

Brexit vote – THREAT to EU status quo.

Tariffs useful to get concessions. Will they be lifted once desired deals negotiated? Doubtful.

LATAM, Africa, Mideast – Seek fresh start to achieve growth!!

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Fundamental Backdrop

Tariffs, protectionism prominent trends - U.S. Leads charge.

Price spikes: Result of tariffs & counter tariffs.

U.S. exporters seek protection from tariff retaliation by China, elsewhere.

Threat: Global demand undermined by trade tensions. U.S. goods face boycott.

Threat to global stability.

Global Stock market volatility: Reflects uncertainty.

Weaker corporate earnings growth foreseen.


U.S. growth stands out against slowdown elsewhere. Note: U.S. cannot be the only engine of global growth!

To succeed against China - U.S. needs United Front with countries aggrieved by China's policies.

Which nations will control/dominance future technology applications?

Global slowdown hits stocks, trade flows, & confidence to invest.

Challenges
**Trump Era**

- Pushes nationalist agenda.
- Distrustful of Multilateral Trade Agreements.
- Seek “Fair trade” versus free-trade.
- USMCA: Canada & Mexico cements trade relations with U.S. - Great achievement!!
- Tariff war with China, others. Retaliation hurts U.S exports.
- U.S. now Prefers bilateral agreements. Exits TPP.

**Overview**

- Global factory activity slows. Commodity prices weaken.
**Growth Drivers**

- **Technology**: Leads investment. Scientific breakthroughs open doors for new advances.
- **Application & adaptation of new technologies**: Across all geographic regions: Strong demand.
- **Impacts**: 5G networks connectivity. Telecommunications; High-speed rail, agro-industry, oil exploration, broadband, AI; infrastructure, mining technology, manufacturing, transportation.
- **Technological advances**: Boosts factory output; oil & gas; agricultural output; improves construction processes.

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**Trends**

- **Labor & skills shortage in advanced economies**: Demand grows for foreign workers.
- **Emerging markets**: Currencies & Commodity prices weaken.
- **Uncertain outcome to Trade War**: weighs on sentiment. Global GDP growth – slows. No recession yet!
Global Trade Pattern

1985-2005: Trade growth double pace of global GDP.

2009-14: Pace of trade slows – barely kept pace with GDP growth.

2017-present: Trade at center of debate; momentum slows. Trade tensions feeds uncertainty.

USA

Households resilient. Consumer confidence strong.

Robust jobs market. GDP weakened in last 2 quarters of 2018.

Business investment up during 1st half 2018. Led by Mining & manufacturing activity.

Housing, construction sector – Appear to peak.

U.S. attracts capital inflows. Strong $ - U.S. goods more expensive abroad.
USA

2018: GDP Expands 2.9%.

2019: GDP Expands 2.2%.
Inflation subdued: 2%. Unemployment 3.7%; 2019: 3%.

Consumer confidence: High.

Why Uncertainty?
Tariffs & retaliation; trade tensions: Causes holdback in NEW capital expenditure.

U.S. deficits growth - over next decade!

High debt - discouraging new lending.

Deregulation – Boost business confidence.
Tax cuts – Further boost! Now tailing off.

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What are Tariffs?

Tariffs are taxes imposed by governments on imports or exports.

- Barrier to trade. Inflates import prices
- Sign of rising economic nationalism.
- Government attempts to protect domestic producers.
- Foreign goods artificially more expensive.

Effects of Tariffs

- Revenue windfall for Treasury. Not paid by exporting country!
- Hits importers /consumers pocketbooks
- Influences price increases
- Locally produced goods appear cheaper, inflates price of imports
- Hurts diplomatic relations. Encourages retaliation against U.S. goods.
Manufacturing at 10-year high. Demand slackens. Tariffs weaken demand, weakens GDP growth. Has U.S. growth peaked?


INFRATERESTRATE INVESTMENT: To help sustain growth in developed & emerging economies.

Confidence weakens? What would help renew confidence?

Positive outcome to negotiations with China, EU. Brexit.

U.S. Demands on China not unreasonable. What will motivate China to cut deal?

Shifting Loyalties - Companies seek suppliers from lower or non-tariff locations! Fight over the future!

EU-U.S. trade deal hinges on EU concessions! U.S. considers tariffs on European autos!

U.S.-China deal: difficult to achieve. Promises to be long, drawn-out.
China

- Economy faces crisis.
- Slowest growth - in 2 decades. Huge debt pile-up!
- Brace for Trade War; Tense U.S. relations.
- Changes tact: Boost government spending & bank lending to corporate sector. Seek to stimulate renewed growth.
- Stock market hit, consumer spending down, job losses.

China-U.S.

- Accused of stealing intellectual property.
- Forces technology transfers - Trades unfairly.
- Aggressive expansion abroad. Suspected of using its advanced presence in telecommunications for spying on trade partners.
- U.S. concerned how far China has progressed. Seek thaw in ambitions for global dominance.
- Viewed as an adversary. Changed attitude in Washington.
China

Tries to re-kindled Demand. No longer low cost producer.

Currency weakens. Fear of HEIGHTENED capital flight.

Government eases control on credit access.

Debt overhang - Major concern. Concerted effort to become global technology leader.

China’s wealth Fund: buys non-Chinese assets. Reflects unease. Fear hard landing for domestic economy?

China

World’s #2 economy - Dominant role in application of advanced technology: telecommunications. Leads in equipment manufacturing: 5G Networks.

Strong player in cross-border FDI. Belt-Road Initiative boosts China’s influence & trade in Eurasia. U.S aim to check China’s advance.

China’s Trade & infrastructure financing to developing countries: Put some countries in debt trap! Viewed suspiciously by some recipients.


Confrontation with U.S. Negotiated settlement sought. Long battle ahead.
China

Additional U.S. tariffs – Placed on hold while negotiations continue.

• Resistance to Chinese acquiring U.S./Western assets. Pushback against illegal access to foreign technology.

• China being watched: Aggressive buying binge of U.S., Western assets. Technology investments: Face stringent reviews going forward.

China vulnerable: United Front of nations aggrieved by its policies.

• Chinese Authorities forbid local news media from reporting bad economic news or focus on trade war.

Rewrite Global Order

U.S. shakes global trading system. But trade must continue.

Despite discomfort among some trading partners – U.S. gains concessions.

Uncertainty over cooperation. Negative impact on geopolitical relations.

Pushes for major adjustments to system.
Global Tensions Rise

- Pressure on U.S. global relationships intensify. Allies miffed.
- NATO adjusts to U.S. demands – Raise spending levels on defense.
- Combating cyber warfare, espionage – major threat.
- Trust levels among nations – Decline!
- Sanctions remain on Russia. U.S. withdraws from missile treaty with Russia.
- Relationship WORSENS with Russia, China, Iran.
- Middle East rivalry sharpens.

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Latin America

- Changing political landscape. Leftists out in Brazil, Argentina, Ecuador. New leadership to address corruption, end recessions.
- Spending on regional infrastructure; Other investments. Key to regain growth.
- Exports: Chile, Peru, Colombia – best economic performers.
- Search for regional political stability. Heavily dependent on raw material exports.

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Brazil


High government fiscal deficits. Policy changes – pension reform #1.

Industrial production could pick-up. Follows 3-year decline. Private sector receives boost.

High consumer, corporate debt. Interest rates ease. Corruption major obstacle.

Manufacturers invest again: capital goods imports up - 1st rise since 2014.

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LATAM largest economy – population: 207.6 million; GDP $1.07 trillion. Beset by graft, crime.

Seek recovery from steepest recession in 60 years. Government’s role in economy to be cut.

Unemployment: 12% [unofficially higher] - highest in 30 years.


Public debt 80% of GDP; well above countries with similar credit rating.

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Brazil

Investors could return – if new regime boosts confidence.

Banking sector well supervised. Most banks adequately capitalized.

Well diversified economy; major trading nation. Fresh growth: Investment boost!!

Still, uncertainty dominates outlook.

Expect sell-off of state sector.

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Brazil

Important raw material supplier; manufacturer. Trade central to economic growth.

New Government pledges attack on root causes of corruption: Needed to regain credibility with creditors.

Bolsonaro’s platform – law & order. Private sector to get boost.

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Argentina

MACRI government – approval rating down!

On brink of 2nd recession since 2015

Receives IMF lifeline: $57.1 billion

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Argentina

Argentines distrustful of IMF policies.

Agree to eliminate fiscal deficit in 2019.

Tax on exports; cuts to subsidies.

Country regains access to international capital markets.

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**Argentina**

- Recession continues in 2019. Can Macri win re-election?
- IMF credit facility to stabilize currency & break economy's fall.
- Tax on exports. Cut subsidies to transport & electricity.
- CB to refrain from intervening in currency market.
- Creditors willing to support Macri agenda. Argentines uneasy with IMF program.

**Mexico**

- Economy fairly stable. Investor confidence depends on AMLO gov’t policies.
- Free market currency; market friendly policies to remain. New USMCA removes some uncertainty!
- Energy reforms – paying dividends: Huge oil find in Gulf of Mexico.
- Exchange rate: supports exports; attracts investments.
- 80% of exports to U.S.
- 2019 – AMLO takes office as President. Some degree of ‘Wait-and-see’ expected.
Mexico

Trade agreement with US, Canada & EU expands reach of Mexican producers.

Lower production costs attract some factory relocation from China, elsewhere.

Mexico pursues pragmatic policies to avoid risk of recession, anti-trade backlash.

Will AMLO government endorse USMCA?

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USMCA

Early resolution – big relief. Benefits U.S. businesses. All 3 countries remain!

Incoming Mexican government – To implement new deal. Expect some tweaking.

Without disruption of supply chain; companies breathe easier.

Trade security between the 3 nations.

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**USMCA**

Replaces 25 year-old Nafta. Businesses encouraged in 3 countries.

U.S. pushed renegotiation. New agreement includes IP rights.

Canadian dairy sector pried open.

Nafta kept prices low. Free movement of goods & capital tariff-free. Expanded production & jobs in 3 member countries.

Revised local content rules for autos.

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**UK Brexit - EU**


U.K. businesses need years adjusting to new rules.

No deal looks increasingly possible. Or a 2nd referendum?

Financial sector relocates from London.

EU Investments UNCERTAIN. German companies pessimistic. Regional growth: weakens.


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Brexit

Difficult 3-year process. Still no deal! Leadership split.

Level of dislocation and complexity – should deter others planning to exit EU!!

Both the UK and EU economy suffers.

On display: EU dysfunction; weaknesses.

Costly for companies; disruptive for trade flows; loss of jobs for UK. Was it worth it?

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Beyond Brexit

UK economic outlook- Bleak.
GDP growth of 1.7%.

London loses role as financial gateway to E.U.
Ireland border: free or not?

UK pushes for trade deals with rest of the world.
EU “No deal” a possibility!!
UK gov't contingency plans.

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Eurozone


Consumer/business confidence: Low

Unemployment 6.2% average; down from 12.6%.

Inflation close to target!

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Eurozone

Businesses say “Future unclear”

Manufacturing exports – competitive. Demand weakens.

Economic momentum weakens – Amidst drift toward nationalism.

2019 GDP growth 1.7%

U.S. tariffs feared– Especially on autos!

Decline of moderate political parties. Major concern as rightist gain support.

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Eurozone

- Business investments – remains MODEST.
- Labor shortage- Region needs foreign workers.
- ECB to slowly remove stimulus.
- Inflation on target. Long-run growth - supply chains: Uncertain!

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Eurozone

- German business confidence weakens. GDP growth stalls. Concern about recession.
  - Germany's trade surplus under fire. Need for higher Gov't spending; increase pay!
  - Anti-immigrant parties gain strength across region!
  - Political risks grows.
  - Tough EU stance against unfair Chinese trade. Stiffens rules toward Chinese investment flows.

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Eurozone

Exports underperform.
- Industrial production lose momentum.

Domestic demand weakens.
2019 GDP growth 1.7%.
Business confidence weakens.

Banking sector – outlook mixed.

France

2nd largest Eurozone economy – Leadership Under fire!

Protests against fuel tax, other demands: Undermines Macron reforms.

Government could be toppled. Boost to nationalist parties.

Protests hits economy – Estimates of $10 billion loss to retail, tourism, etc.

Tourists arrivals suffer. Anti-Semitism grows.

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EU strains

- Spain's recovery loses momentum.
- Large government debt: Italy & Spain - barrier to recovery.
- Italy shifts toward nationalism, in recession. Non-compliance with EU rules.
- EU economy confidence revolves around 'deal' with U.K. No deal?
- Challenge: Prevent more departures from E.U.
- Fear U.S. imposition of tariffs on autos.

Eastern Europe

- Poland, Hungary, Czech Republic: economic growth steady.
- Boost to private sector. GDP growth 4%. Slowdown in western Europe will dampen growth E-European economies.
- Lower unemployment than West-Europe. Importing labor to fill positions.
Turkey

Growth slows sharply. Recession threatens. Consumers uneasy as prices rise. Erdogan seek to avoid unrest.

Weakened lira - Falls 30% against US$ in 2018. Household consumption slumps to 1.1% from 6.4%.


Turkey strains to attract foreign capital financing: Volatility in exchange rate.

Foreign investment inflows – pullback.

Central bank under intense pressure to cut rates!
Turkey

Economy relies on foreign capital inflows to finance fiscal & current-account deficits.

Inflation: 30%. Interest rate at 24%.

Turkey’s geopolitical importance - Access to foreign credit crucial.

Economy needs stimulus. Higher costs to access credit.

Sovereign rating; banking sector outlook revised. Top tier banks- well capitalized.

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Asia-Pacific

Asian economies adjusts to less business due to China’s slowdown. Japan’s economy contracts -2%.

Region boosts trade with rest of the world as China slows. Sensitive to U.S. tariffs; S. Korean exports to U.S. weaken.

Hong Kong, Taiwan, Singapore, South Korea, Australia, Mongolia: All experience decline in trade flows with China.

Expands trade with Latin America, India, U.S., Canada as alternative.

Southeast Asia – experience growth uptick – supported by domestic demand and boost in exports.
Southeast Asia

Indonesia
Largest regional economy: GDP growth 5.2%

Philippines
GDP growth 7% - Assisted by strong remittance flows.
Inflation spikes!

Vietnam
Vietnam, Malaysia, Thailand, Bangladesh, Cambodia.
These countries attract investments in manufacturing for export.

India

Modi government – Reform agenda setbacks. Loss of support in key states.

Faces tough 2019 re-election. Step-up govt spending ahead of polls.

Currency stable but weak. Interest rates rise. Inflation rises. Clash with central bank over policy!

Subsidies cut - support to farmers reduced. Lose U.S. GSP status.
India

Banking system faces $65B capital shortage.

Weak capital positions: earns Indian banks weak viability ratings.

Country targeted for 5G connectivity; 1.4 billion population.

90% of State banks affected. Limited options to raise capital.

Tensions flare anew with Pakistan.

Credit Focus

High Need to ‘KNOW’ customers. Crucial ally at this time.

Reassess financial health of companies before increasing credit lines.

Several EM companies face difficulties meeting foreign debt obligations.

2019-20 Forecast: Increased Claims & payments delays.
Russia

- Recession. Sanctions delay recovery.
- Lack of access to Western capital takes toll.
- Commodity-dependent economy; price recovery key.
- Oil & gas prices - supports modest 2020 growth.
- Less reasons to cooperate with U.S./West.
- Hit by U.S. & EU SANCTIONS Relief unlikely!

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Middle East

- Oil, gas producers: withhold production- to boost global oil prices.
  Limited effect in 2019: $60 per barrel crude projected.
- Liquidity strain grows in Oman, Bahrain.
- GCC countries resort to strict fiscal consolidation to contain budget deficits.
- U.S. shale as counter-balance to OPEC production.

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**Middle East**

Governments keen to maintain social spending.  
Prevent social unrest. Oil revenues dip!

Regional governments boost bond issues. Funds used to offset revenue declines from low oil prices.

Heightened state of political risks. Saudi-Iran rivalry intense.

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**Saudi Arabia**

- New leadership – suffers fall in credibility!
- Ongoing anti-corruption drive. Stifles internal dissent.
- GDP shrunk 3 consecutive years. Spends heavily on diversification away from crude.
- Raised $68 billion in dollar denominated bonds & syndicated loans in 2 years. More offerings in the pipeline!
- Fastest rate of debt accumulation of any emerging market.
- Companies struggle to cope in troubled economic environment.
- Cost of insuring against Saudi default up 30%.
Egypt

• Downgraded to ‘very high risk’.
• Economy kept afloat by aid from Gulf countries & $3bn World Bank structural adjustment program.
• President Sisi – firm control over opposition. Re-election ASSURED in 2019. All credible opposition candidates removed.
• Seek to attract FDI: manufacturing & tourists.
• Tourism sector hit hard - major hindrance to recovery.
  – Public sector dominates: power, transport, heavy industry, insurance. Urgent Need for Privatization.

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Africa


Payment delays by Ethiopian, Angolan & Nigerian, Ghanaian state-owned entities.

L/C’s, secured payment terms; government guarantees preferred.

Leadership: Must address rampant corruption to attract investments.

Lack of confidence, political instability: Overshadows investment opportunities.


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South Africa

- Economy weakened: Low investment inflows. Strong desire to attract investment.
- Crucial for new government to rebuild confidence in fiscal, economic management.
- New leader attempts to reset growth path. Escom – leading corporate: downgraded.
- Elections due in 2019 – investors watch for new direction.

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Africa

- South Africa & Zimbabwe: Political changes usher in new beginnings?
- China leads charge to develop infrastructure. Exploits raw materials/minerals. Resentment towards China builds.
- Ripe investment destination. Tech application. Political instability.

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Global Forecast

Elevated political risks: Cross-border trade continues; albeit at slower pace. China’s downturn crimp global activity [imports & exports].

China, Europe, LATAM – Attempt to stimulate global activity in 2019.

Competition for global market-share intensifies.


Caution Justified

Will pace of trade hold-up sufficiently – despite tensions? Global slowdown has arrived. Need for informed decision-making.

Take pains to identify risks. Understand changes & impact on business relationships across borders.

Acceptable risks still found in difficult markets. Unacceptable risks found even in highly rated countries. Knowledge - Our crucial ally!
Trade Negotiations

U.S. attempt to set new trade rules. EU, China needs convincing. Expect more pushback. Compromise a MUST!!

USMCA achieved goal in short timeframe. A plus for 3 countries.

U.S demands on China, EU - Not unreasonable. But contentious!

Brexit-EU impasse hurts regional confidence.

Other Concerns

• Cyber Security threat grows
• Protecting system from further attacks by cyber thieves: [Foreign governments, Terrorists, Others]?
• Protect, prevent manufacturer; vendor inscription spyware. National security threat?
• Russia promises U.S. will be targeted with nuclear attack - without treaty.
SUMMARY

Global Economy face big challenges.

Debt build-up source of caution. Confrontation Vs. Collaboration

Monitor Emerging markets: Expanded debt levels.


Conclusion


Exports/imports impacted by changing, uncertain conditions. Competition for markets heats up!

Building customer relationships: REMAINS key. Caution toward new customers. Track record required.

Changes impact trade flows & payments. Knowledge essential to survive in changing environment!