



An Uneven Recovery in a Risky World

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Glen Hodgson
Senior Vice-President & Chief Economist
hodgson@conferenceboard.ca



The (new) Great Divide

- 10 years ago rich countries contributed around 70% of global GDP – today only 50% and falling
- Globalization and sound macro economic policies enabled the emerging world to catch up
- Emerging market banks avoided investing in sub-prime mortgages and other risky assets
- Aging demographics and rigid markets in rich countries also important contributor
- Food and energy inflation a global issue



Global Outlook

- Growth of the global economy impaired by heavy public debt and inadequate policy responses
- W. Europe growth constrained by the Greek tragedy and weakened confidence
- North America constrained by political non-consensus in the U.S. and financial de-leveraging in Canada
- Japan expected to rebound from tsunami impacts
- High-speed growth in emerging markets, but rising inflation and upward currency pressures



A Risky Time

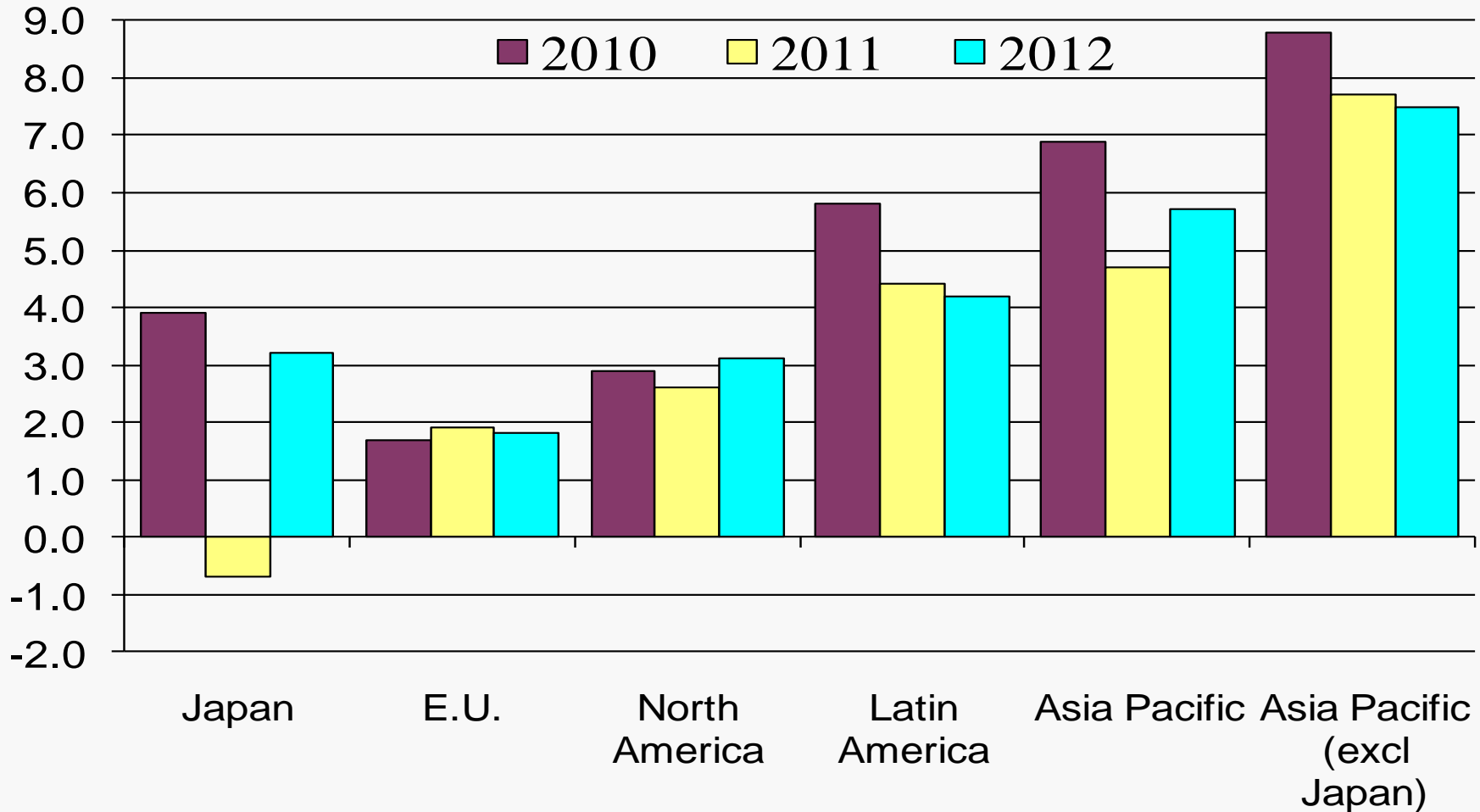
Exceptional degree of risk to the outlook:

- Public sector debt in EU, U.S., Japan
- Bank stability in EU
- Global imbalances
- Political turmoil in N. Africa, Middle East
- Higher food prices
- Inflation in emerging markets



Uneven Growth in Global Economy

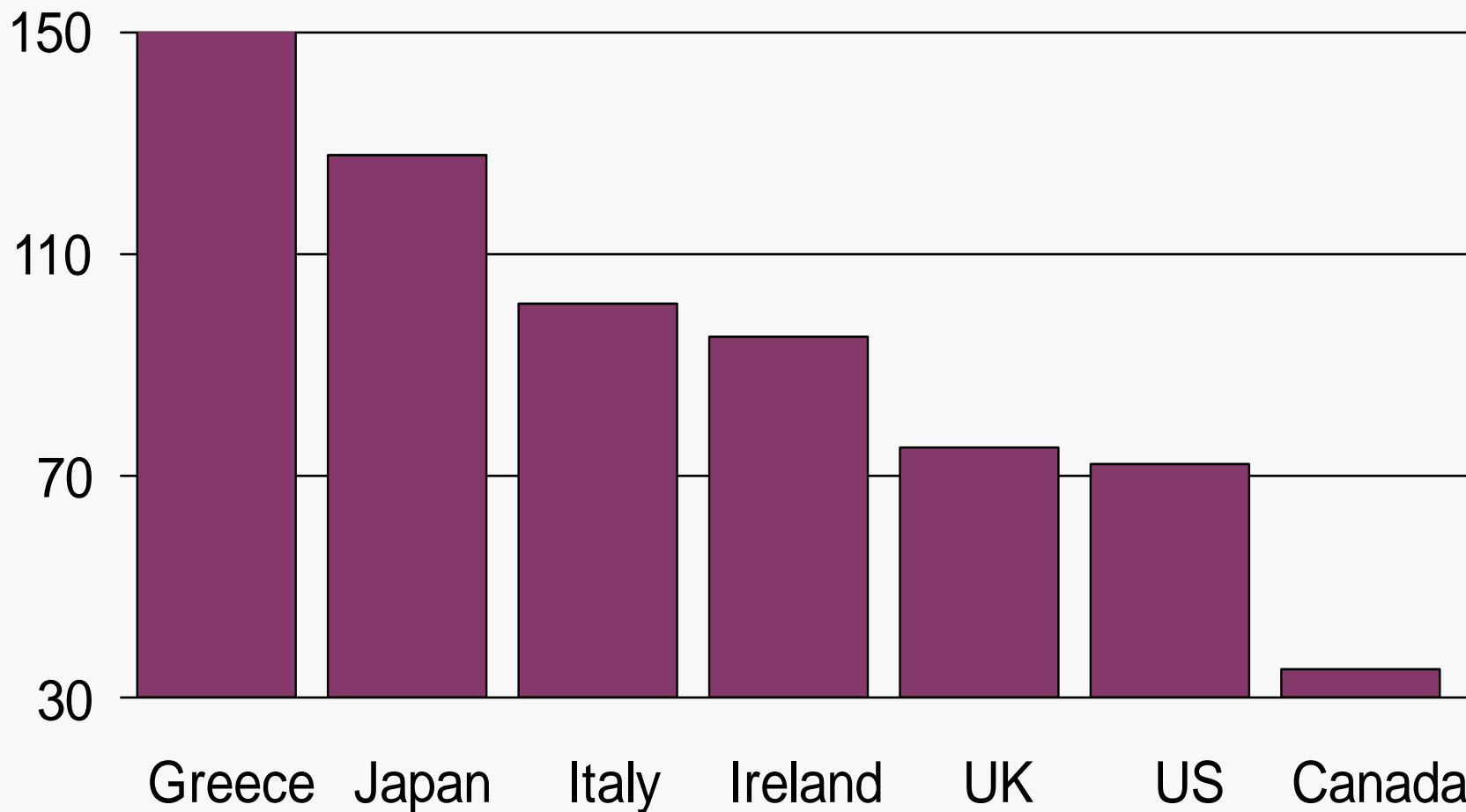
(per cent change, real GDP)



Source: Consensus Economics.



Government Debt as a share of GDP (per cent, 2011, net debt)



Source: IMF



The Greek Tragedy

- Greece hit the wall in March 2010; two huge EU-ECB-IMF bailouts since then
- Large fiscal deficits, financed by European banks
- As a eurozone member, no scope to restore competitiveness through devaluation
- Now facing severe fiscal adjustment and prolonged recessionary forces
- Leaving the eurozone would sharply increase Greek debt service payments
- Bottom line: Greece is an insolvency case; its public debt will eventually be partly written off





A U.S. Lost Decade?

- After financial crises, countries often have long period of mediocre growth while imbalances are addressed and confidence is slowly rebuilt
- Thus, slow job creation; higher unemployment; weak private investment; fiscal strains
- E.g. Japan since the early 1990s
- U.S. may be on a similar course – a “Lost Decade”

- See [This Time is Different](#), by Carmen Reinhart and Ken Rogoff





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