



California State
University

C H A N N E L
I S L A N D S

Institute for Global Economic Research presents

Global Economic Outlook

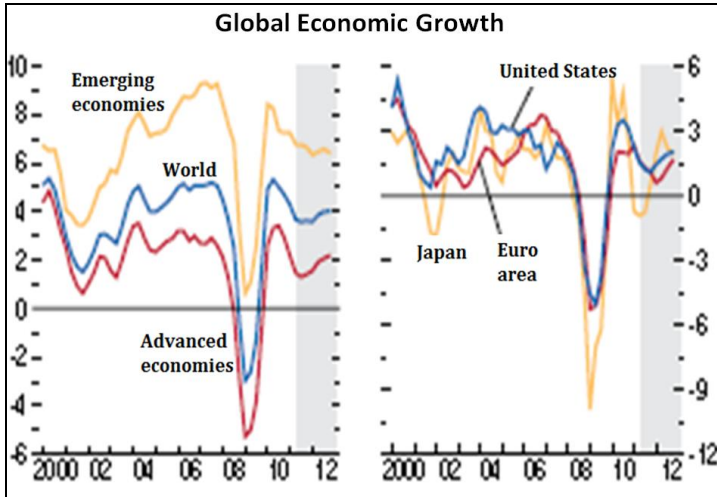
October 20, 2011

Santa Barbara, California

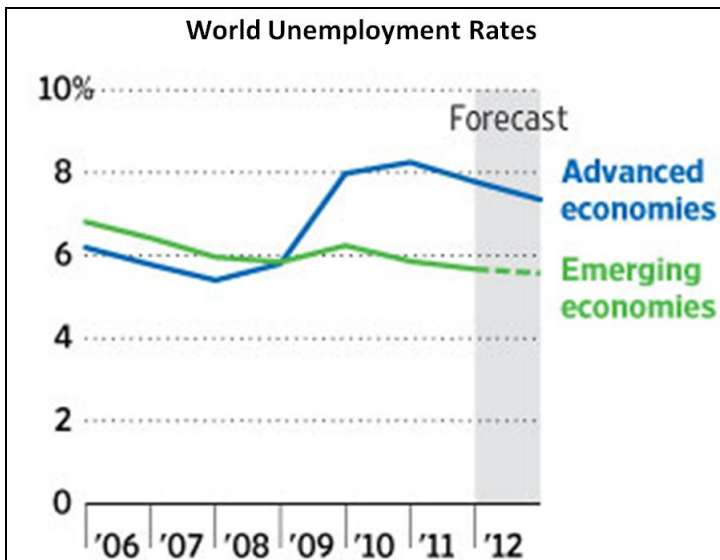


MARTIN V. SMITH
SCHOOL of
BUSINESS &
ECONOMICS

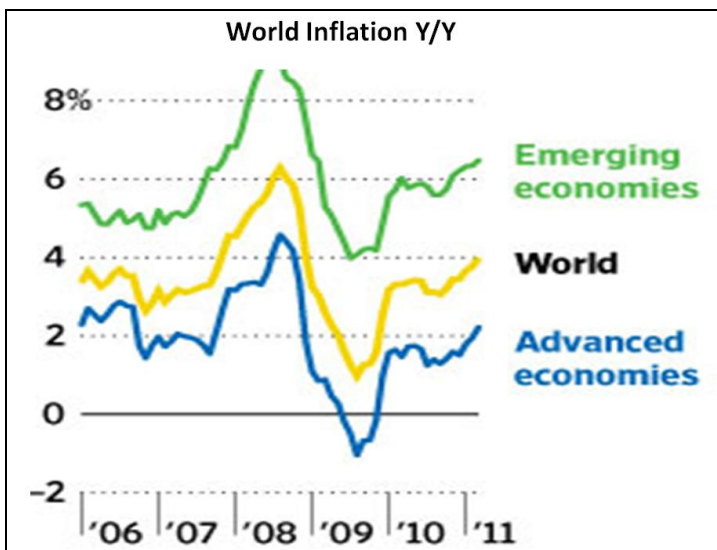
International Economy



In 2012, the world economy will grow about 4 percent. There will be a big divergence between the advanced nations (4 percent) and the emerging market nations (6 percent). China will be the leader growing about 9 percent.

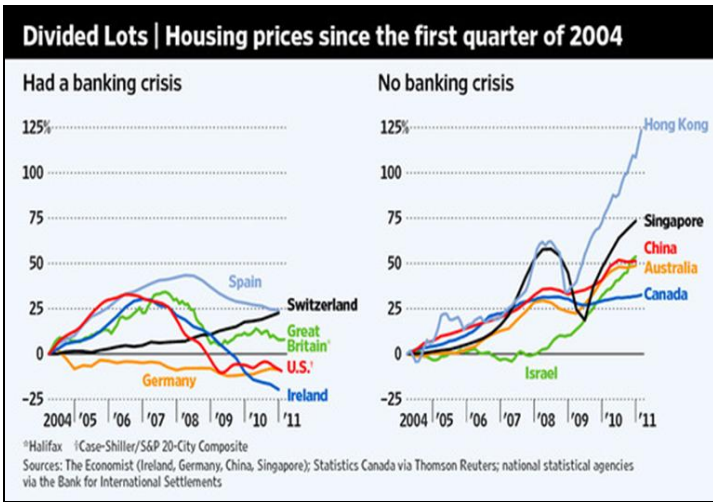


The jobless rate around the world will trend down a bit. The unemployment rate in the advanced nations will not be near the recent low. In the emerging markets, the rate will continue to trend down.

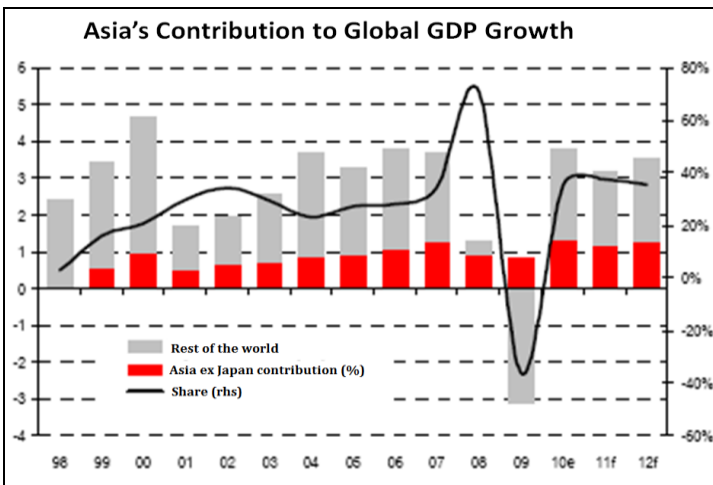


Inflation will be more of a problem in the emerging nations. Prices will rise in the advanced nations but will remain within acceptable limits.

International Economy



The countries with banking crisis saw house prices falling, while the nations without banking crisis continue to experience rising home prices.

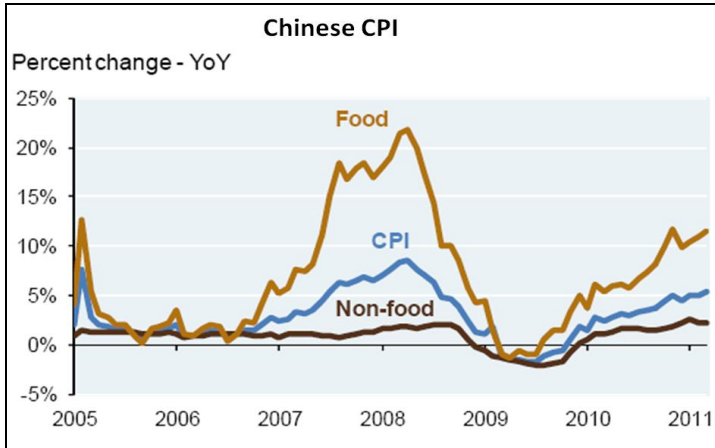


Asia accounts for a growing share of global economic growth, approaching 40 percent. Asia's contribution to global economic growth will increase.

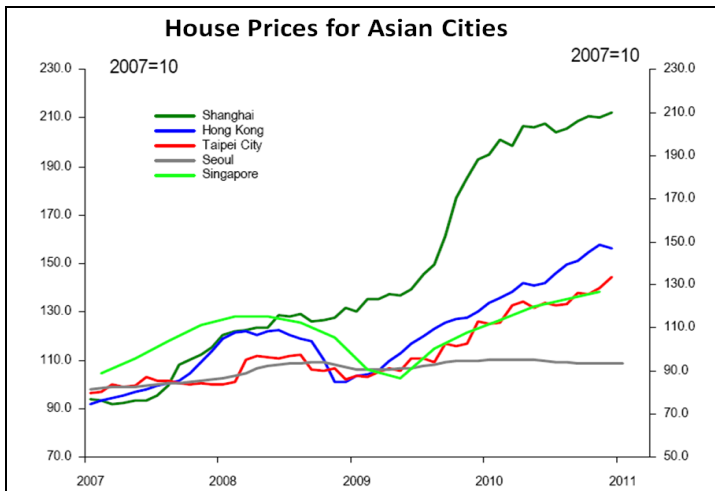


Even in China economic growth will slow from sizzling double-digit rates to high single digits. China needs about 8 percent economic growth in order to prevent the jobless rate from rising. Otherwise, social and political problems would rise.

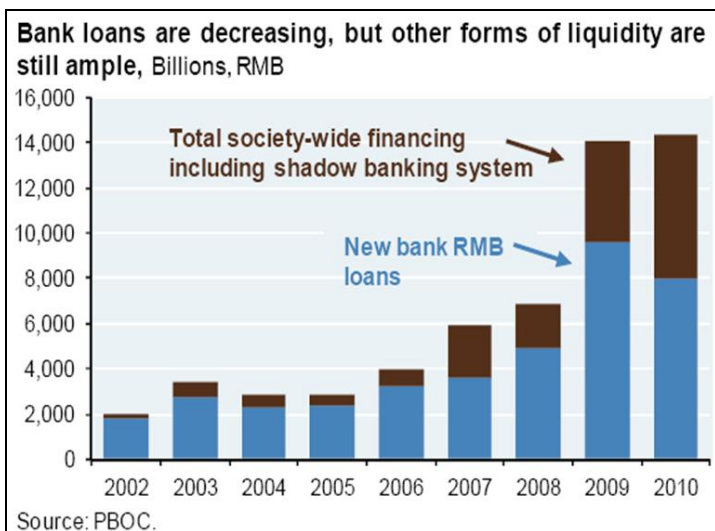
International Economy



The biggest economic problem in China is inflation, especially food. In China, food accounts from 30-80 percent of market baskets. Fortunately, food prices have stabilized. The rising value of the renminbi should keep inflation within reasonable ranges.

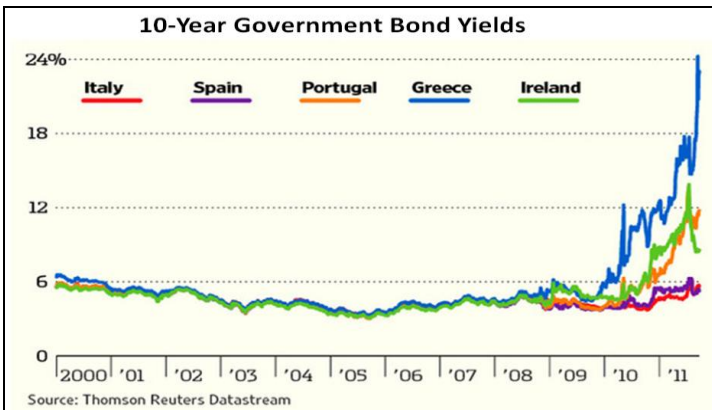


The importance of real estate in China could not be overstated. There is a good chance that a real-estate bubble is in progress. If it were to burst, it could have global ramifications since China is the primary locomotive for the global economy.

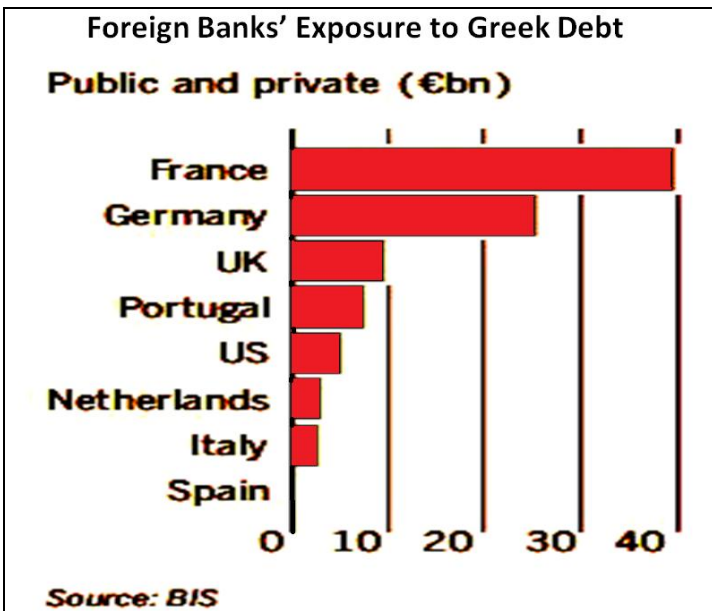


In order to control the real-estate bubble, the government has tightened credit availability at commercial banks. However, the shadow banking system including trust companies, private banks, etc., some unauthorized by the government, is filling the void.

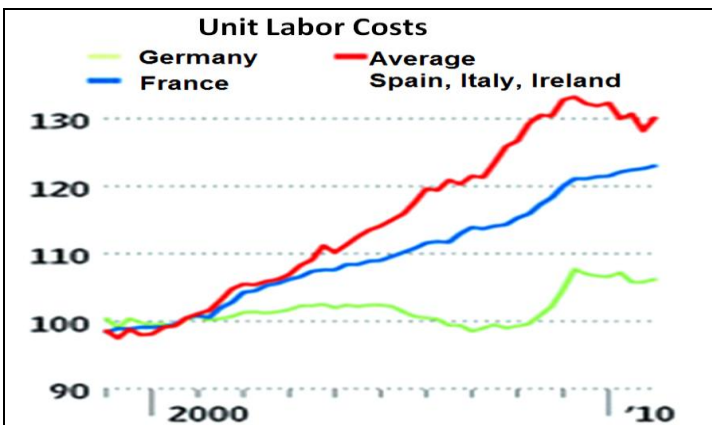
International Economy



The financial crisis in the Eurozone could push the advanced nations into another recession. Greece is the focal point. For the countries with debt problems, the cost of borrowing has become prohibitive. Despite a lot of discussions among the politicians, the problems are getting worse, not better.

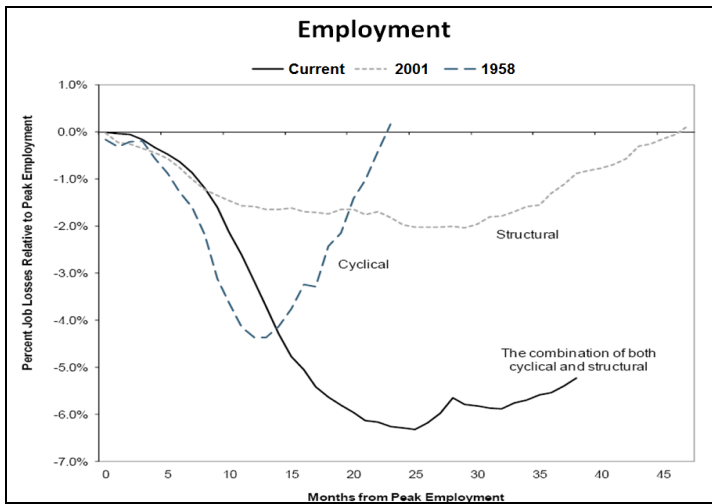


The banks in Germany, France and the U.K. lent a lot of money to Greece and other southern European nations. If the debts are restructured, the banks will suffer possibly requiring government bailouts.



Unfortunately, the heavily-indebted countries in southern Europe cannot compete by devaluating their currencies since the euro is used. Even worse, the labor costs adjusted for productivity gains in the heavily-indebted countries are higher than those in Germany and France. They should not be in the Eurozone together.

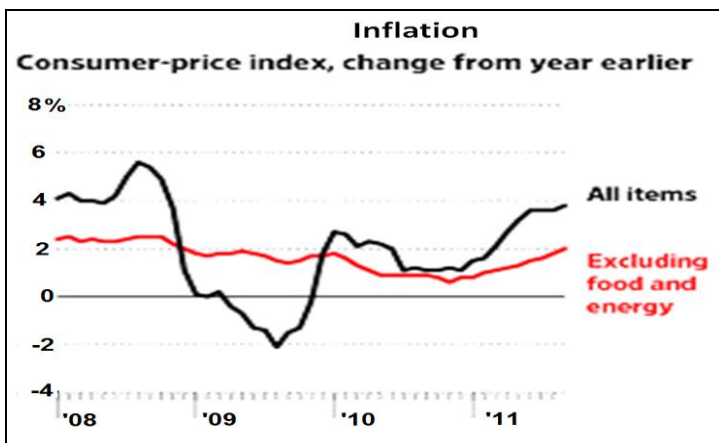
U.S. Economy



This economic recovery is more than two-years old, but there have been very few jobs created. Given the uncertain global economic outlook, businesses are reluctant to hire employees. Shell-shocked consumers have battened down their hatches. The job prospects are not good.



Given the lackluster employment outlook, the jobless rate will be stuck at the lofty level for years to come. This has important implications for every sector of the economy including consumer spending, budget deficits, etc.

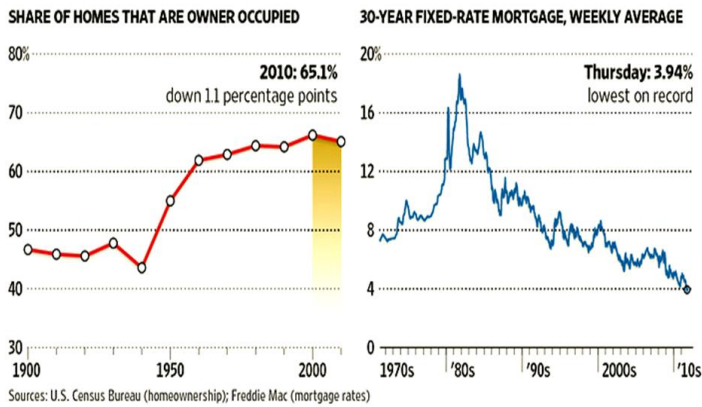


Even though the prices of food and energy have been rising, the core inflation rate (ex food and energy) has been in the acceptable zone. A lot of unused capacity and the high jobless rate imply that inflation will not be a major issue in the foreseeable future.

U.S. Economy

Leaving Home

The homeownership rate fell during the past decade—the sharpest decline in 70 years—even as mortgage rates continue to fall.



Housing has been a major depressant for the economy. It is estimated that one out of eight jobs in the U.S. derives from housing. Even though the mortgage rate is at record low, the high jobless rate impedes the housing recovery.

Fiscal Drag from Federal, State, Local Governments

Effect of federal, state, local policy on gross domestic product growth, percentage points, annualized*



During economic slowdowns, government spending typically has been a source of economic strength. This time, it is the opposite. Despite the deficit, Washington should increase deficit in the short run to support the economy. This should be offset by measures to control deficits in the long run.

Operation Twist?

THE FED

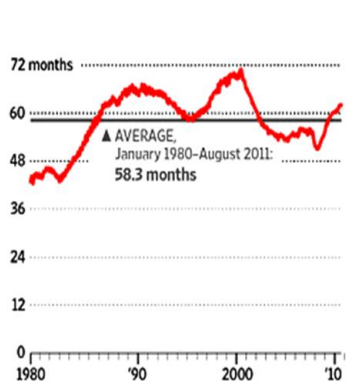
Federal Reserve's portfolio of Treasury debt, in billions; as of Sept. 7

Maturing in:



THE TREASURY

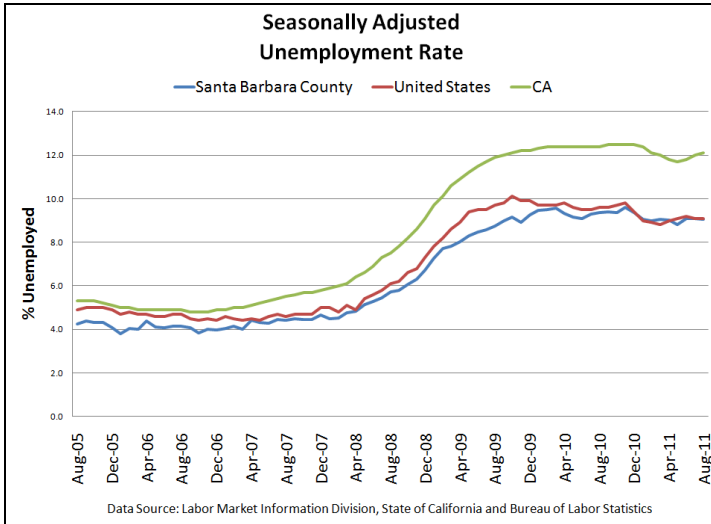
Average maturity of Treasury debt outstanding



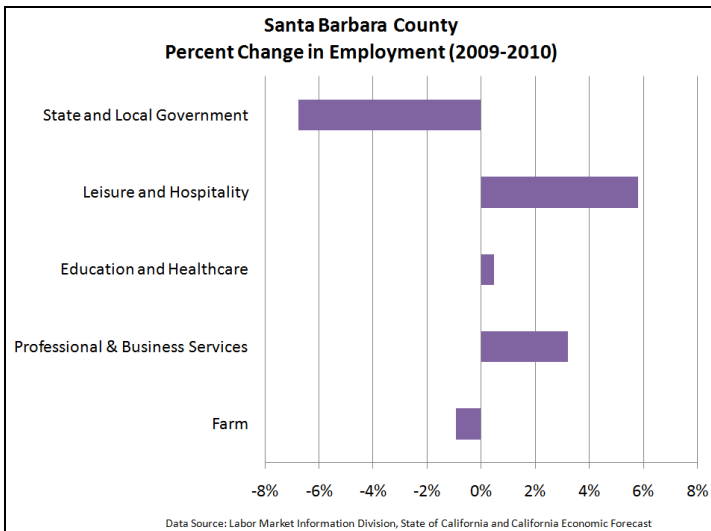
The Federal Reserve has started "Operation Twist" to lower long-term interest rates. It has used up most of its cards leaving limited options such as lowering the interest rate on deposits by member banks and purchasing more securities. Monetary policy will not have a significant effect on economic growth in the foreseeable future.

Source: Treasury Department

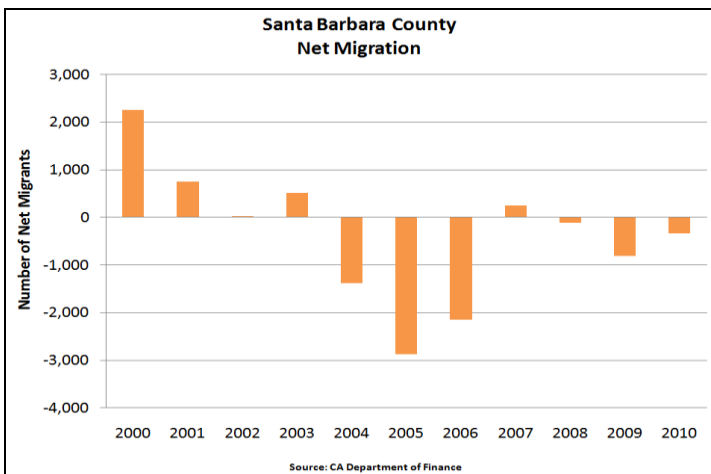
Santa Barbara County



The unemployment rate of the county has flattened out. The jobless rate will improve, although the recovery will be very slow.

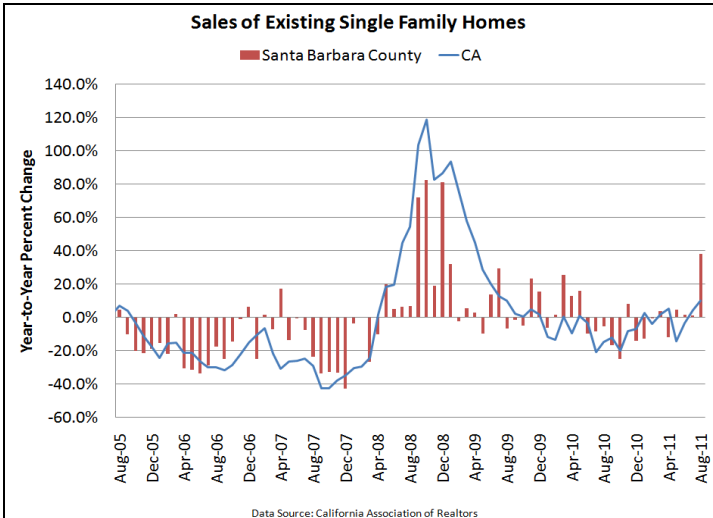


Leisure and hospitality as well as other services have fared relatively well. Cuts in government jobs have resulted in public sector employees being hit hardest in Santa Barbara County. The private sector will lead the recovery for the county.

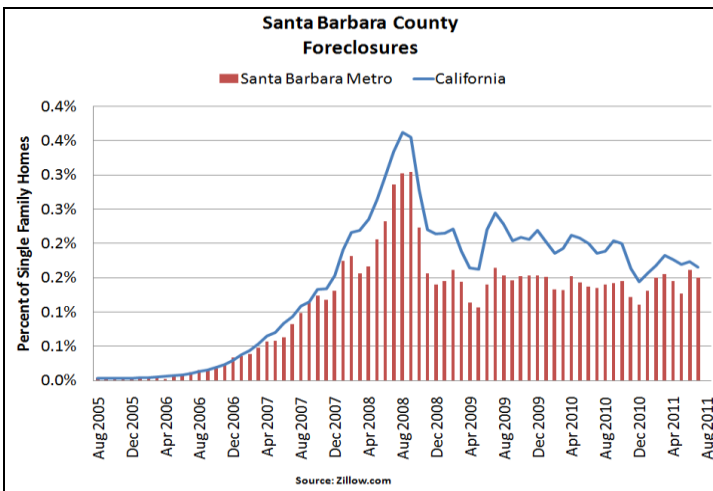


The high joblessness in the county also slows population growth through a decline in net migration. Until we start see more job creation, net migration will remain negative.

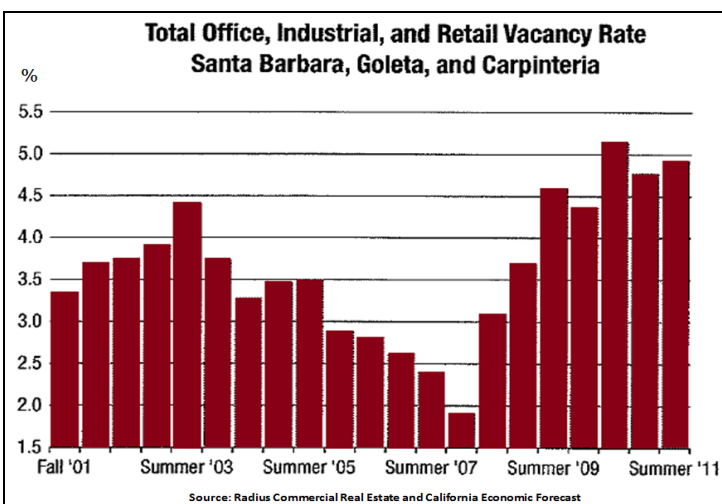
Santa Barbara County



Low interest rates have helped to push housing sales up in the county. The housing market is not expected to show a sign of strong recovery until the labor market conditions improve and people feel confident buying a home.



While the percent of single family homes foreclosed has dropped drastically since the peak of the recession in 2008, it has remained high since then. The high joblessness of the county has been the culprit. Once the job situation improves, we should start seeing declines in foreclosures as well.



The commercial real estate market remains depressed in the county. Since recovery in commercial real estate markets does not usually begin until after the recovery of other areas in the economy, vacancy rates are not expected to decline in the near-term.



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