World Economic Trends

The 2014 Autumn Report

– Sustainability of Global Economic Growth –
(Summary)

January 2015

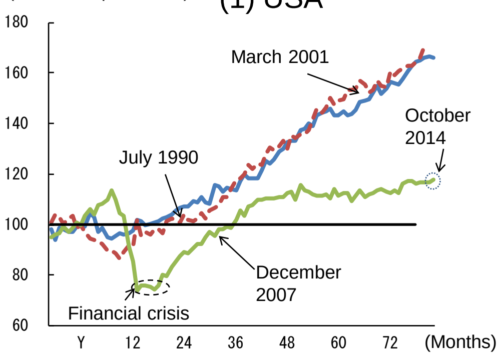
Cabinet Office
Government of Japan

Chapter 1, Section 1. Sustainability of Global Economic Growth (1)
– Three Factors behind the Moderate Recovery –

- The world economy is moderately recovering amid a U.S. recovery, despite weakness seen in some countries, including China and other emerging countries. While the future course of the Euro area has grown more uncertain since the summer of 2014, the world economy is likely to continue a moderate recovery for the immediate future.
- There are three factors behind the moderate recovery: (1) import growth in the world's two largest importers (USA and China) (Fig. 1), (2) wage growth in developed countries (Fig. 2) and (3) price hikes (Fig. 3) are all slow.
- Behind the slow import growth are weak demand growth, structural factors (including an industrial material import decline due to growth in U.S. shale gas and oil production), policy factors (including China's emphasis on structural adjustment and its suppression of growth potential), etc. (Fig. 4).
- Behind the slow wage growth are increasing low-wage employment in low-skill industries and an increasing share of part-time employment, etc. (Fig. 5).

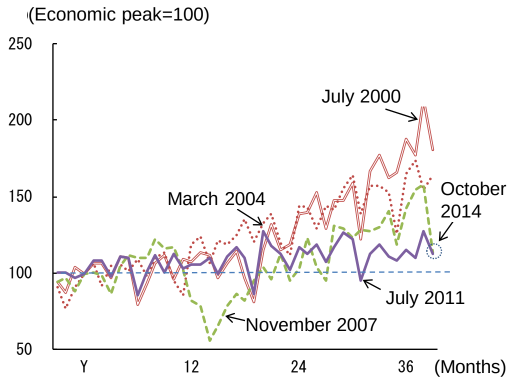
Fig. 1 Import Trends

(1) USA



(Notes)
1. Source: U.S. Department of Commerce
2. International balance of payments basis, seasonally adjusted nominal data
3. Economic peaks are assumed for July 1990, March 2001 and December 2007 as published by the National Bureau of Economic Research (NBER).
4. Y indicates an economic peak.

(2) China



(Notes)
1. Source: General Administration of Customs of the People's Republic of China
2. International balance of payments basis
3. Economic peaks are assumed for July 2000, March 2004, November 2007, and July 2011 as published by the OECD.
4. Y indicates an economic peak.

Fig. 2 Real Hourly Wage in Major Developed Countries

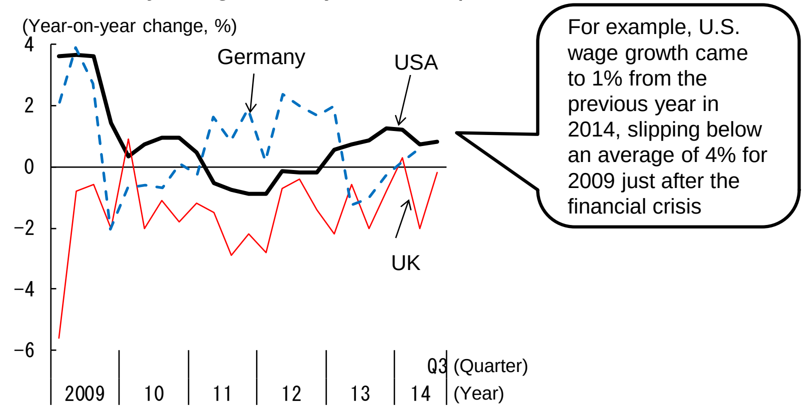


Fig. 3 Price Hikes in Major Developed Countries

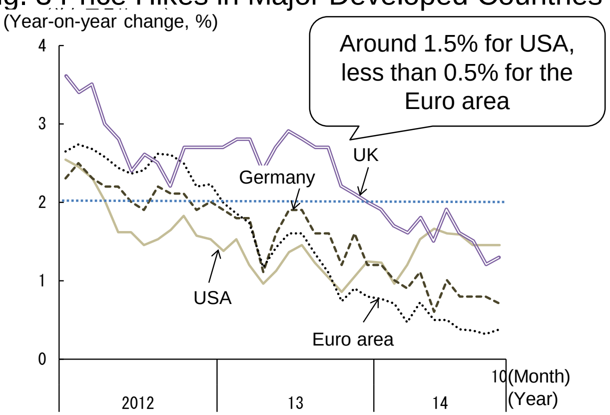


Fig.4 Mechanism of Three Slow Rises

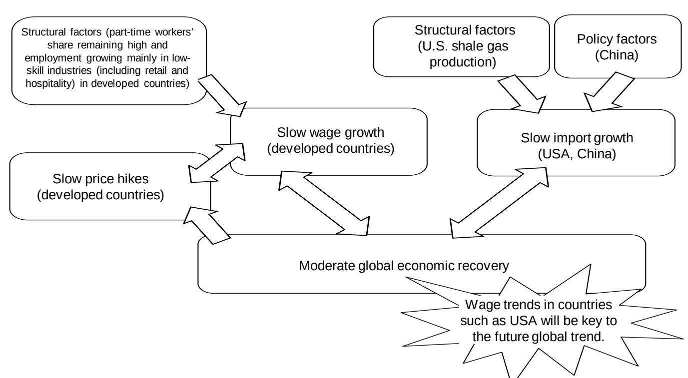
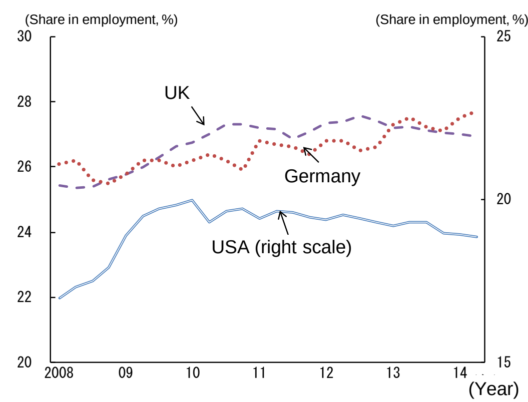


Fig. 5 Part-time Workers' Share



● <u>Global Economy：Continuing moderate recovery</u>

- Main future scenario

The entire global economy will continue the moderate recovery due to the U.S. recovery, etc.
Crude oil price drops will push up corporate earnings and wages and will support private consumption in non-oil-producing countries.
(International organizations forecast the real global economic growth rate at around 3% for 2015)

- Risks:

(1) In the process of U.S. monetary policy normalization, international financial markets could wildly fluctuate, with funds flowing out from emerging economies, affecting the real economy.

(2) The European economy could grow uncertain.

- Deflation fears (downside factor for wage growth and nonresidential investment) accompanying prolonged low inflation in the Euro area
- Growing geopolitical risks including Ukraine situation changes
- Political situation including Greece (doubts growing over the EU’s fiscal soundness policy)

(3) China’s hard landing and impacts on other economies depending heavily on exports to China in the case of the Chinese economy’s failure to change its growth model
(e.g. If China’s real estate market adjustment is prolonged, the real economy including investment may rapidly slow down through financial disruption.)

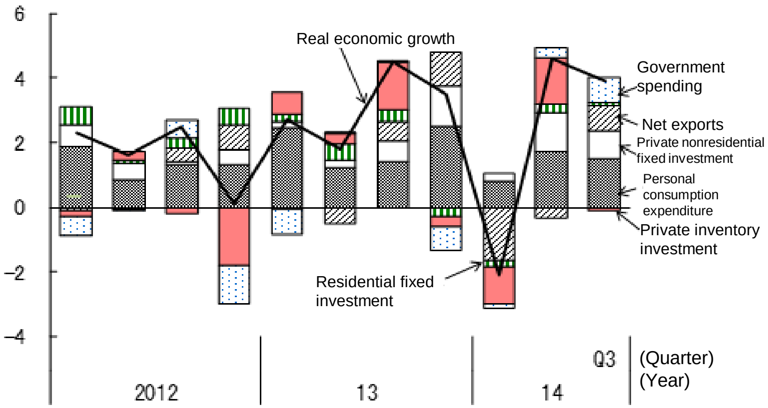
(4) Crude oil price drops could lower the growth potential of oil-producing countries depending heavily on crude oil for exports and government finance (Russia, Middle Eastern countries, etc.). Deterioration in confidence of investors anticipating such development could destabilize international financial markets.

Chapter 1, Section 2. Recovering U.S. Economy (1) – Expected to Drive Global Growth –

- The economy is recovering in a virtuous circle where improvements in the employment environment lead to private consumption growth (Fig. 1).
- Employment has quantitatively improved (employment increased) since early 2014 (Table 2). Qualitative employment improvements will be a key point for the future. The number of workers who have found part-time jobs while hoping to get full-time jobs has remained high, leaving room for improvement in the employment market (Fig. 3).
- Consumption has been robust, centering on durable goods (Fig. 4). While wage growth has been moderate, an increase in disposable income and improvements in high-income consumers' confidence have pushed up consumption (Fig. 5).
- Housing starts have been picking up thanks to employment recovery and low interest rates (Fig. 6).

Fig. 1 Real Economic Growth

(Annualized quarter-on-quarter growth, %)



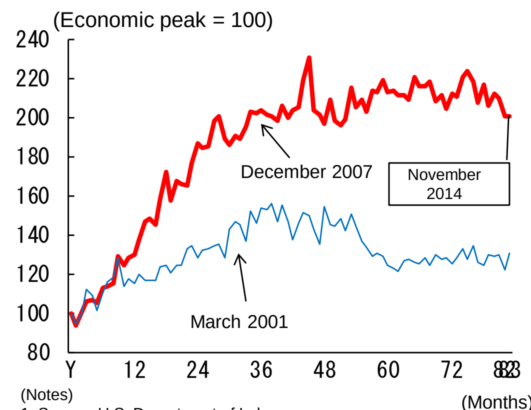
(Note) Source: U.S. Department of Commerce

Table 2 Yellen's Dashboard

	Jan.-March 2014	July-Sept. 2014
Nonfarm payroll change (10,000 people)	19.0	23.9
Unemployment rate (%)	6.7	6.1
Labor force participation rate (%)	63.1	62.8
Long-term unemployed share (%)	36.2	32.0
U-6 unemployment rate (%)	12.7	12.0
Job openings rate (%)	2.8	3.3
Quits rate (%)	1.8	1.9
Layoffs/discharges rate (5%)	1.2	1.2
Hires rate (%)	3.4	3.5

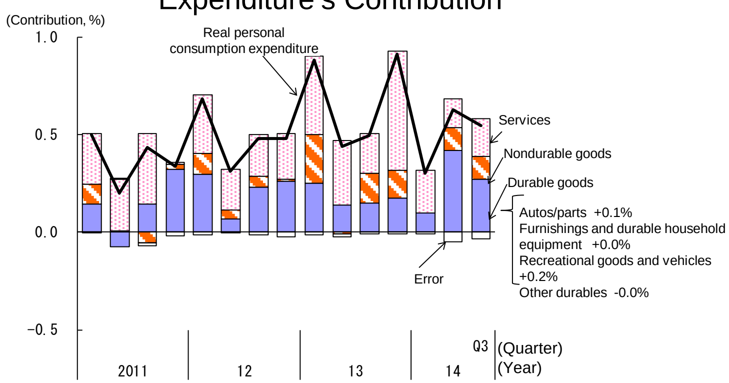
(Notes)
1. Source: U.S. Department of Labor
2. The U-6 unemployment rate is defined as follows:
Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers

Fig. 3 Those Who Found Only Part-time Jobs among Workers Employed Part Time for Economic Reasons



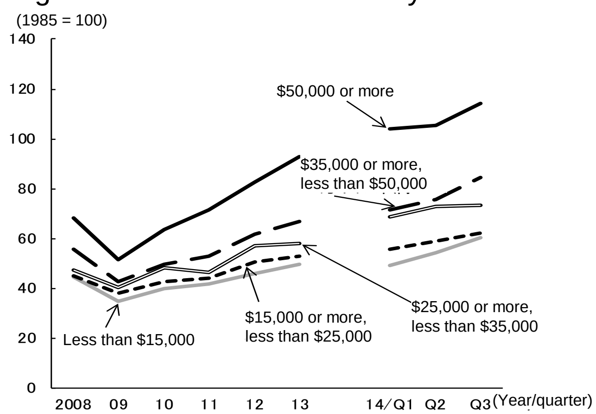
(Notes)
1. Source: U.S. Department of Labor
2. Y indicates an economic peak.

Fig. 4 Changes in Personal Consumption Expenditure's Contribution



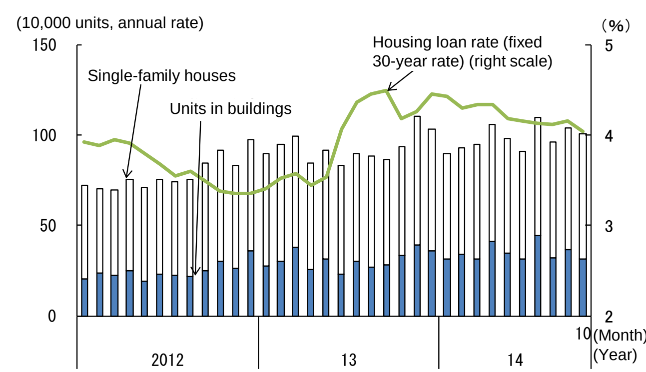
(Note) Source: U.S. Department of Commerce

Fig. 5 Consumer Confidence by Income Bracket



(Note) Source: Conference Board

Fig. 6 Housing Starts Trend



(Note) Source: U.S. Department of Commerce

- The U.S. potential growth rate, though lower than in the 2000s, is still at one of the highest levels among developed countries (Fig. 1). USA has taken advantage of a highly flexible labor market, high education levels and fine-tuned marketing to revive international competitiveness (Table 2). Mining and information technology sectors, and the computer/electronics sector of the manufacturing industries have driven economic growth (Fig. 3).
- The shale revolution has driven production, nonresidential investment and employment growth. It has also boosted the share of industrial materials (including petrochemical products) in exports, exerting a structural impact on trade (Fig. 4). The shale revolution has triggered the return of factories to USA for the purpose of reducing lead times in some sectors. Inbound direct investment in USA has expanded due to lower energy costs and the expansion of the market size (Fig. 5). But attention should be paid to how the recent crude oil price plunge will affect the shale revolution.

Fig. 1 Potential Growth

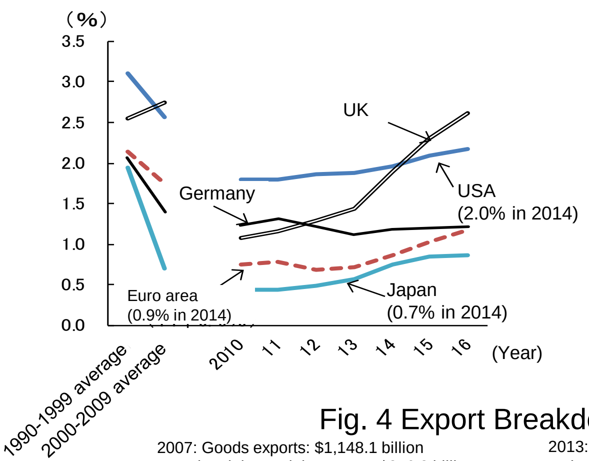
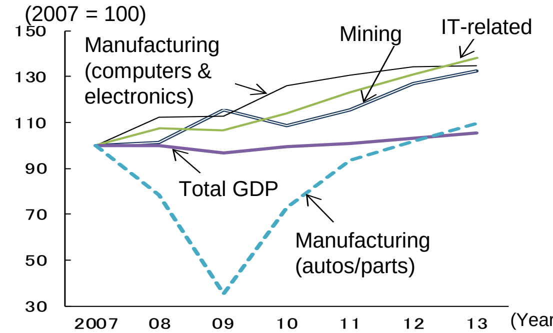


Table 2 International Competitiveness Ranking by Pillar (Comparison between countries) (rank)

	U.S.	Germany	Japan
Overall competitiveness	3	5	6
Institutions	30	17	11
Infrastructure	12	7	6
Macroeconomic environment	113	24	127
Health and primary education	49	14	6
Higher education and training	7	16	21
Goods market efficiency	16	19	12
Labor market efficiency	4	35	22
Financial market development	9	25	16
Technological readiness	16	13	20
Market size	1	5	4
Business sophistication	4	3	1
R&D Innovation	5	6	4

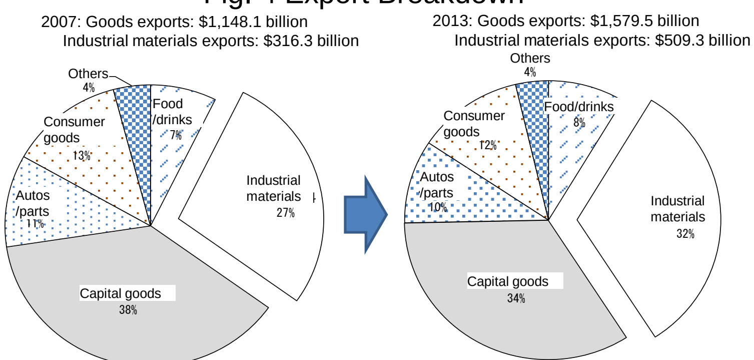
(Notes)
1. Source: World Economic Forum
2. USA ranked fifth in 2011 and seventh in 2012.

Fig. 3 Industry-by-industry GDP Trends



(Notes)
1. Source: U.S. Department of Commerce
2. Data for GDP chained to 2009 dollars are computed into indexes based on 100 for 2007 GDP.
3. "IT-related" covers information and data processing operations in the information-related industry and computer systems design and related services in the professional/business services industry.

Fig. 4 Export Breakdown



(Notes)
1. Source: U.S. Department of Commerce
2. Nominal data on a census basis

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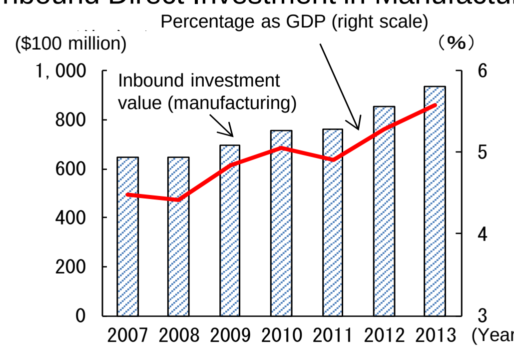
Fig. 5 Inbound Direct Investment in Manufacturing and its Percentage of GDP



(Note) Source: U.S. Department of Commerce On a cost basis.