

**Summary of
IPS Corporate Associates Breakfast
Prospects for the Global Economy
by Mr Charles Burton
Board Director of Business Development, Oxford Economics**

14 October 2009
Marriott Hotel, Singapore

The Breakfast was attended by 45 participants including IPS Corporate Associates, guests, and IPS staff, and chaired by IPS Director Ong Keng Yong.

The speaker, Mr Charles Burton, Board Director of Business Development at Oxford Economics, first introduced the audience to the economic forecasting firm. Based in Oxford, United Kingdom, the consultancy has over 70 economists in offices around the world. Its services include research on linked models of the global economy that tracks the impact of events in one location on another in areas such as tourism and finance.

Mr Burton began his presentation by identifying the types of economies which had been expected would suffer the most in the current downturn:

- Those most dependent on financial services, such as those of the United Kingdom;
- Those who have seen housing and construction booms, such as the Dutch economy;
- Those where consumer debt rose to excessive levels, such as in Spain and in the United States; and
- Those particularly exposed to US trade, such as the Japanese and the UK economies.

Based on the above expectations, it was forecasted that the US, the UK and Spain would have been most affected by the global financial crisis that spiralled after the collapse of Lehman Brothers in September 2008, while economies such as France and Germany would be less affected. But, Mr Burton said, available data had subsequently shown that Ireland, Japan, Italy and Germany whose economics shrank the most, while change for the UK economy was “relatively mild”. Broadly speaking, Germany, Italy and Eastern Europe have suffered the most compared to the US and the UK.

Mr Burton then went on to explain why ensuing developments were significantly contrary to initial expectations:

- As the financial crisis became a full-blown corporate crisis, credit conditions worsened. Under such circumstances, economies that were most dependent on manufacturing and trade (especially in capital goods and automobiles) and those most reliant on the Asian region were the ones that were grossly affected;

- Those who were most dependent on capital flows were also most severely affected, as the general decline in Purchasing Managers' Indices (PMI, an indicator of economic activity) implied; and
- The drop in oil and commodity prices meant that countries like Russia also saw their export incomes shrink.

On a brighter note, Mr Burton observed that confidence is returning in Europe, and markets are also recovering. The question then is how strong the recovery would be. He suggested that in the initial stages, economic recovery would likely be robust, with policymakers choosing to retain very expansionary monetary policies as well as positive fiscal policies around the world. Although the current downturn bears uncanny similarities with the events of 1929, he said, the more aggressive policies adopted this time have helped to mitigate the consequences of September 2008. Further, he predicted that automatic stabilisers would help Europe on the road to recovery, although any pick-up would likely to be bumpy and slower than normal, as recovery from banking crises are usually slower.

In the mid to long term, the fall in household wealth that has occurred generally means that individuals also have a lower capacity to borrow. Consequently, he said, financial correction still has some way to go. In the business environment, investment would also see slow recovery due to a present large overhang of spare capacity in many sectors. Another area of concern is the automobile sector, which has been buffered thus far by various scrapping schemes. Finally, there is the possibility of rising oil prices derailing any nascent economic recovery.

In the final part of his presentation, Mr Burton presented the Oxford perspective on the economic outlook:

- The Eurozone may have weaker performance, with the exception of Germany and France;
- Japan will return to "respectable if slow" growth; and
- India and China will continue to grow in the years ahead, with the Asia-Pacific region "best-placed" in the world to recover.

Overall, Mr Burton presented what he termed "a muted picture of recovery", although he emphasised that policy-makers must be thanked for saving the global economy from protracted depression. However, there are issues to be tackled, and he felt that it was unlikely that any future economy would bring participants back to "the world we used to have". For Mr Burton, it was also uncertain how certain "legacies" from the current downturn, such as government debt and the regulation of financial services, would be managed.

After his presentation, Mr Burton fielded questions from the participants on a wide range of issues.

Summary written by Tan Simin, IPS Research Assistant.