

The 2022 ISA Global Economic and Risk Outlook

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International Strategic Analysis
(ISA)

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Agenda and Objectives

Today's Agenda

- Introduction
- The State of the Global Economy
- Regional Outlooks
- Key Factors Impacting the Global Economy
- Opportunities and Risks
- Q&A

Today's Objectives

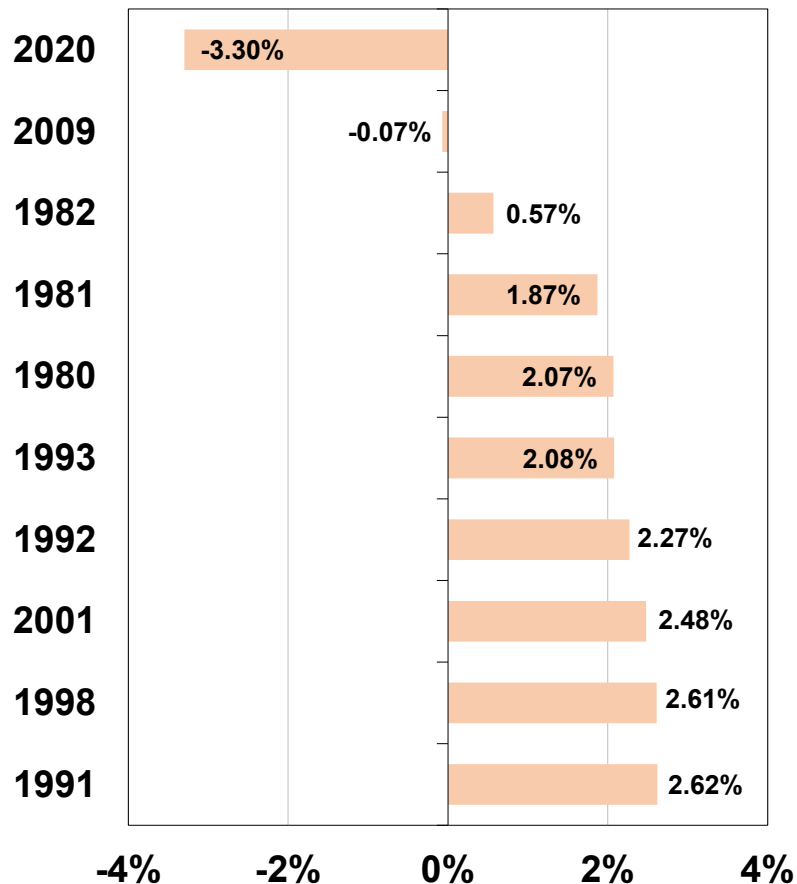
- To gain an understanding of the factors driving the global economy in the 2020s
- To assess the current health of the global economy
- To help you to assess the opportunities and risks facing your organization

The State of the Global Economy

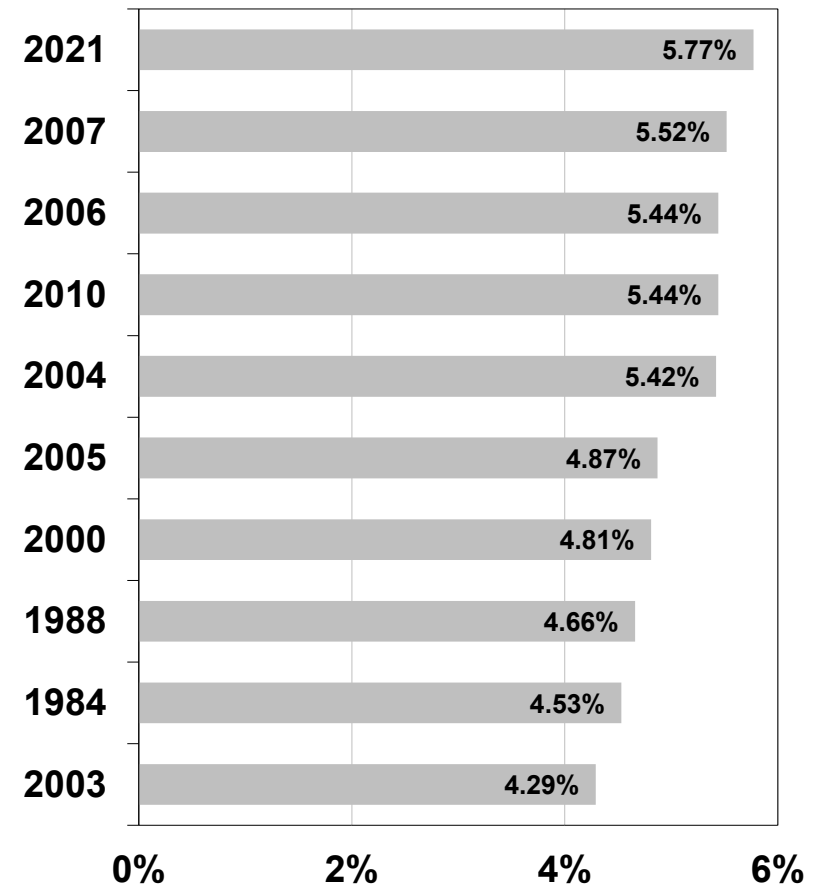


The Economic Impact of the Covid-19 Pandemic

The Ten Worst Years for the Global Economy Since 1980
(based on annual GDP growth rates)

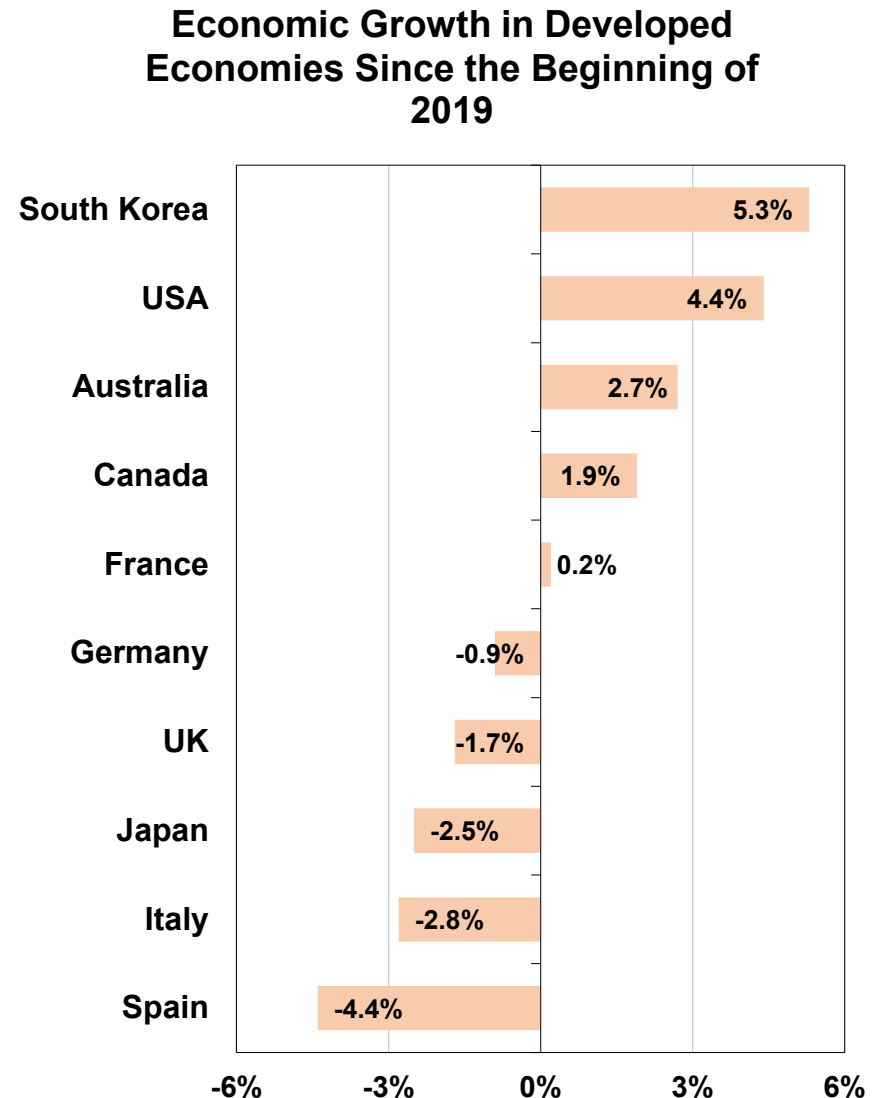


The Ten Best Years for the Global Economy Since 1980
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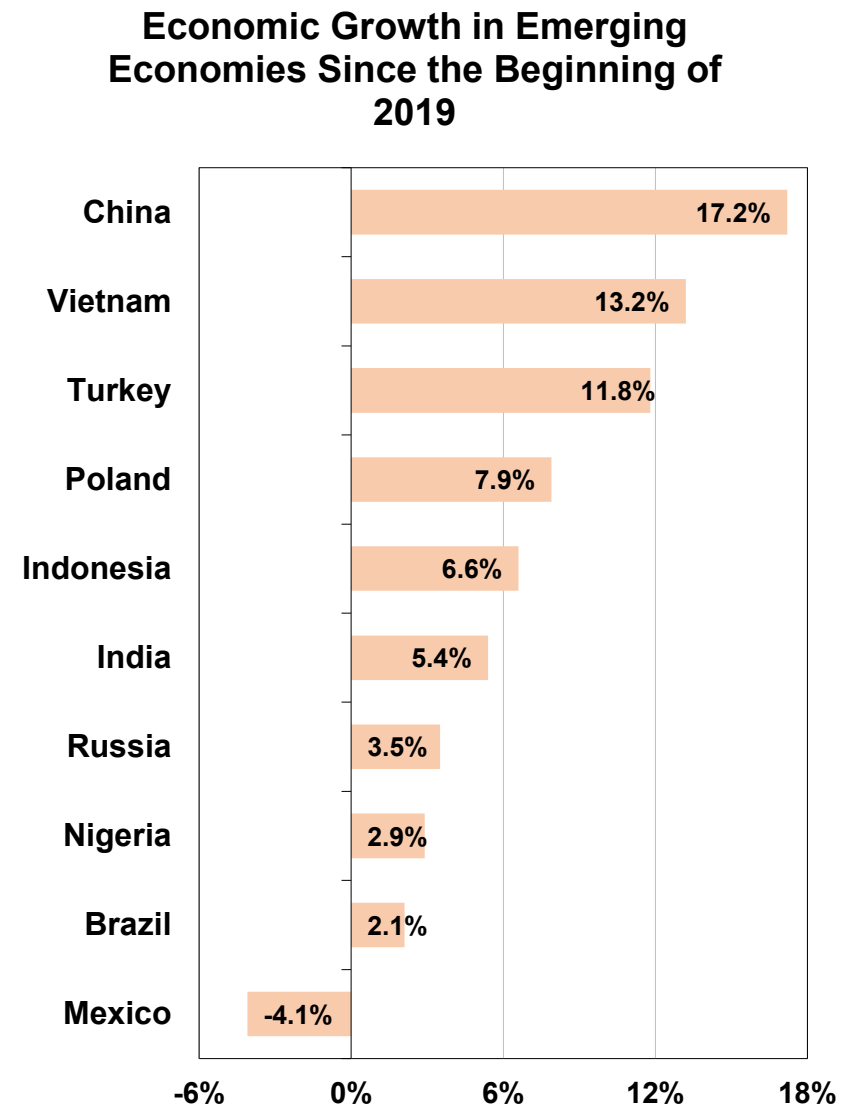
Economic Growth in Developed Economies (2019-2021)

- Most large developed economies have yet to return to pre-2019 levels of economic output.
- Most developed economies were slowing prior to the Covid-19 pandemic.
- Developed economies that are dependent upon foreign trade, investment and tourism suffered the greatest losses in recent years.



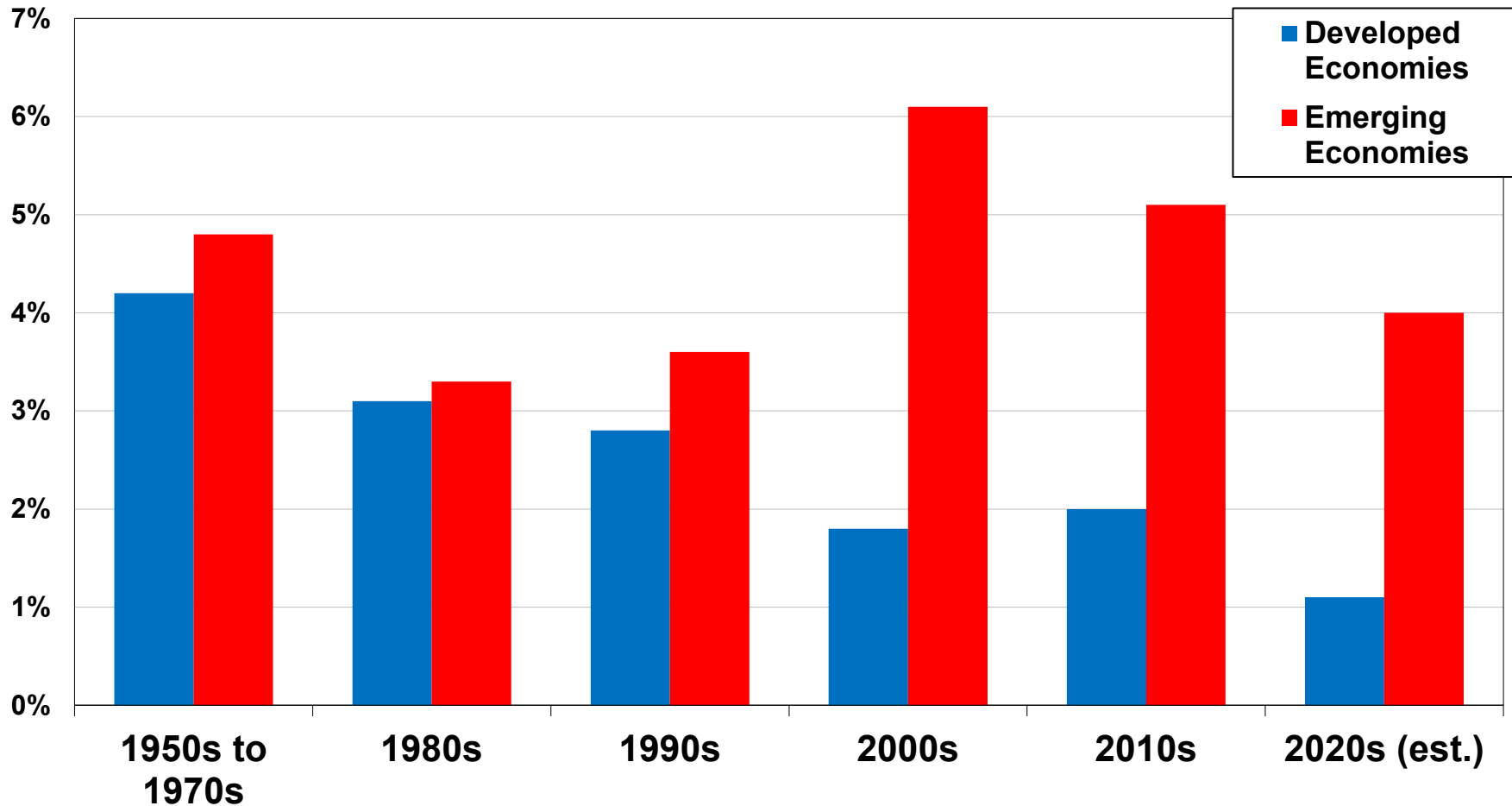
Economic Growth in Emerging Economies (2019-2021)

- The Covid-19 pandemic caused major disruptions for all major emerging markets.
- Only a small number of emerging markets avoided a recession during the pandemic.
- The recovery from the pandemic has been highly uneven in most emerging markets.



The Global Economy Over Time

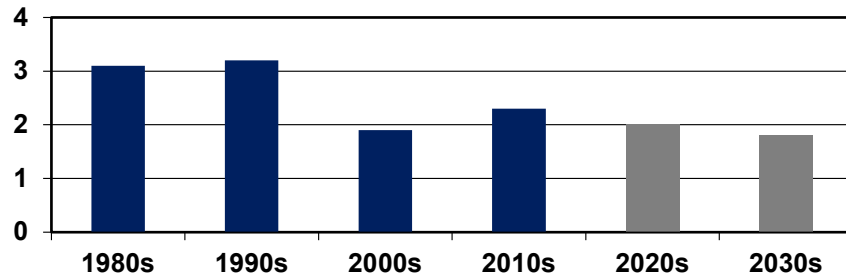
Average Annual GDP Growth Rates by Decade
(Developed vs. Emerging Economies)



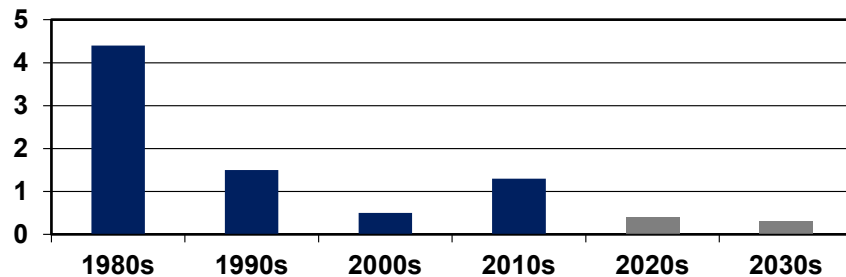
Source: IMF and ISA

Economic Growth in Developed Economies

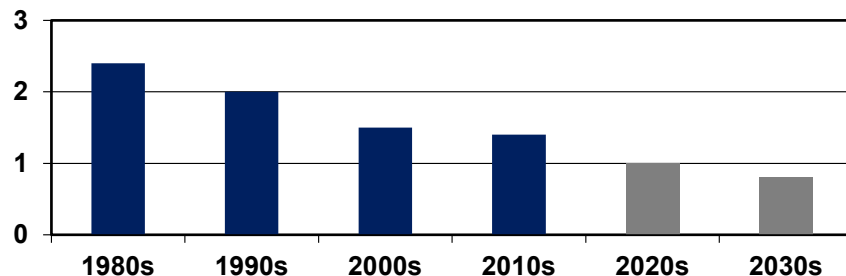
United States: Average Annual GDP Growth Rate by Decade (%)



Japan: Average Annual GDP Growth Rate by Decade (%)



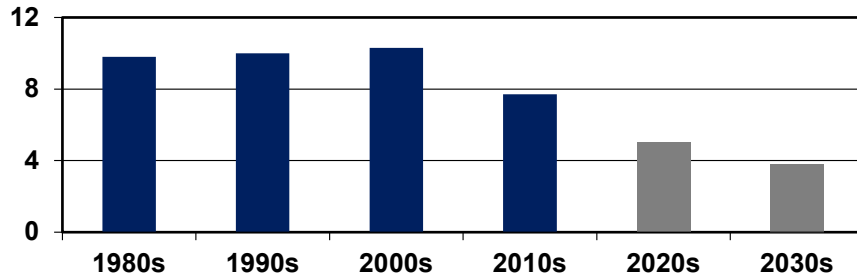
France: Average Annual GDP Growth Rate by Decade (%)



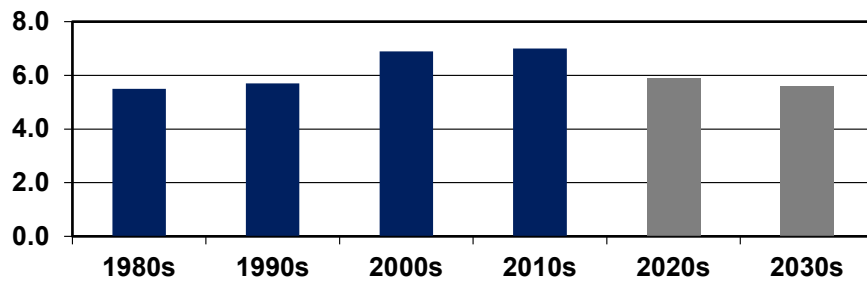
- Economic growth in developed economies is now less than half of what it was before the 1980s.
- “New World” economies have managed to record higher rates of growth than other developed economies.
- Demographic decline and a loss of economic competitiveness are the key reasons for this lower growth.

Economic Growth in Emerging Economies

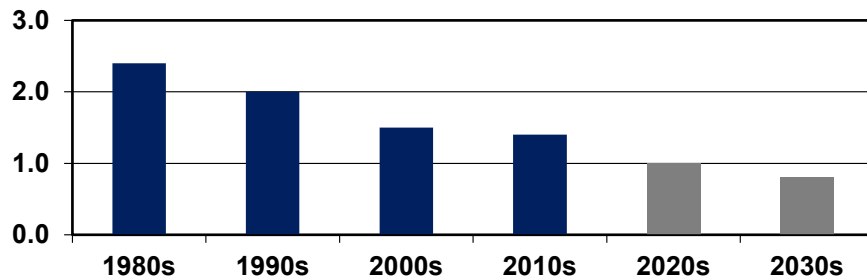
China: Average Annual GDP Growth Rate by Decade (%)



India: Average Annual GDP Growth Rate by Decade (%)



Brazil: Average Annual GDP Growth Rate by Decade (%)

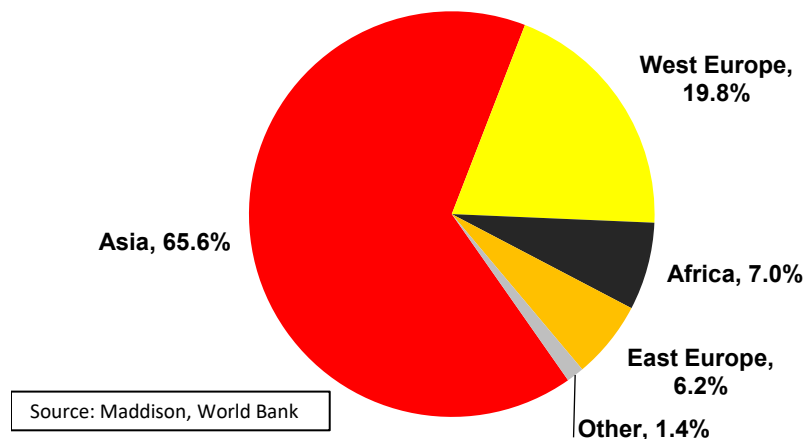


- Nearly all emerging markets recorded strong growth in the early part of the 21st century.
- However, in recent years, there has been a clear split between Asian (and a handful of other) emerging markets and the rest of the world.
- Many emerging markets will soon face the same pressures as developed economies.

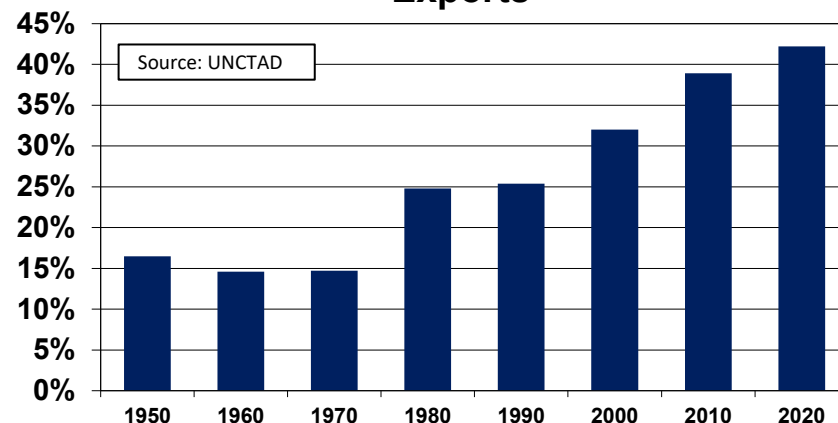
The Return of Asia

- Prior to the Industrial Revolution, Asia accounted for two-thirds of global economic output.
- By 1950, Asia's share of global economic output had fallen by two-thirds.
- Today, Asia accounts for nearly 40% of global economic output.
- More than half of new global economic output is currently generated in Asia.

Share of Global GDP by Region in 1600



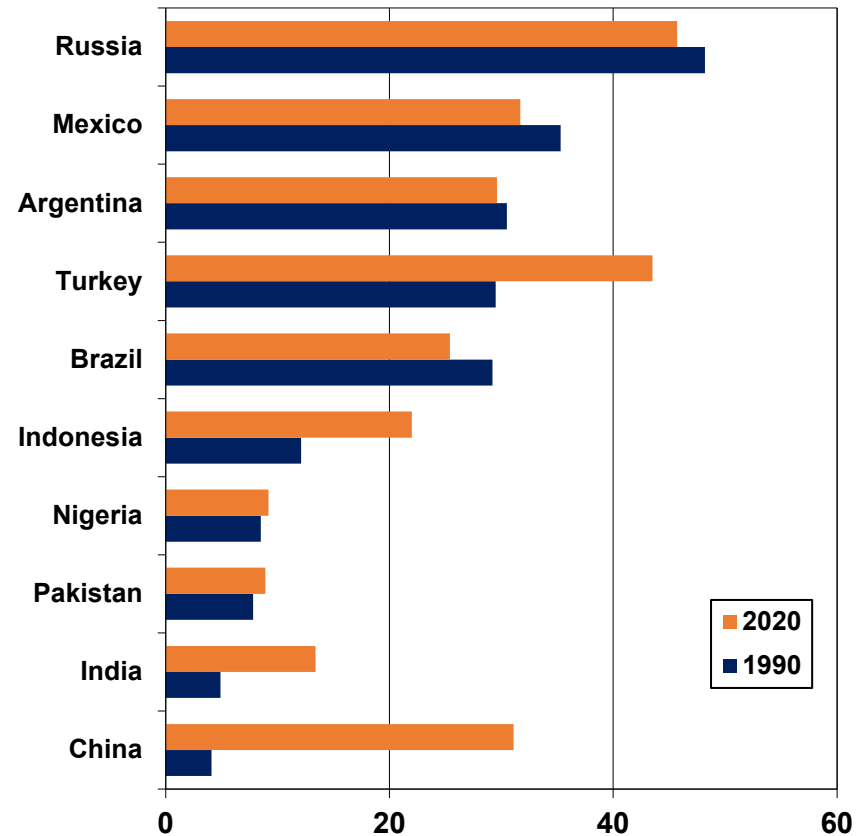
Asia's Share of Global Merchandise Exports



Poverty and Wealth Disparity

- Asian emerging markets have dramatically closed the wealth gap with the world's developed economies.
- However, few other emerging markets have achieved this.
- In fact, many emerging markets have not closed this wealth gap, and in some cases the wealth gap with developed economies has widened.

Per Capita GDP at PPP in Emerging Markets (USA=100)



Source: IMF

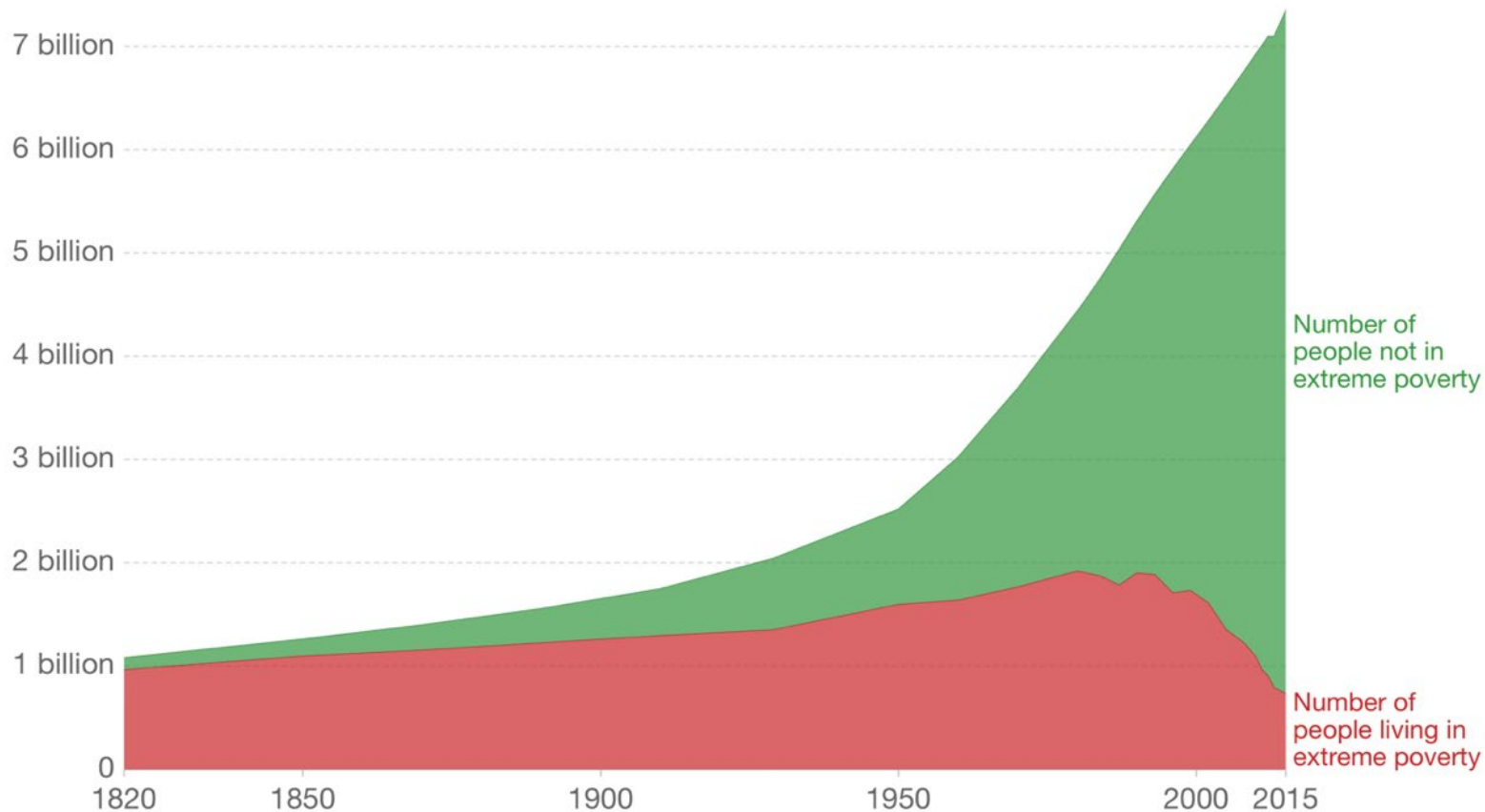
The Reduction of Extreme Poverty

World population living in extreme poverty, 1820-2015

Extreme poverty is defined as living on less than 1.90 international-\$ per day.

International-\$ are adjusted for price differences between countries and for price changes over time (inflation).

Our World
in Data



Source: Ravallion (2016) updated with World Bank (2019)

Note: See OurWorldInData.org/extreme-history-methods for the strengths and limitations of this data and how historians arrive at these estimates.

OurWorldInData.org/extreme-poverty/ • CC BY

Takeaways on the State of the Global Economy

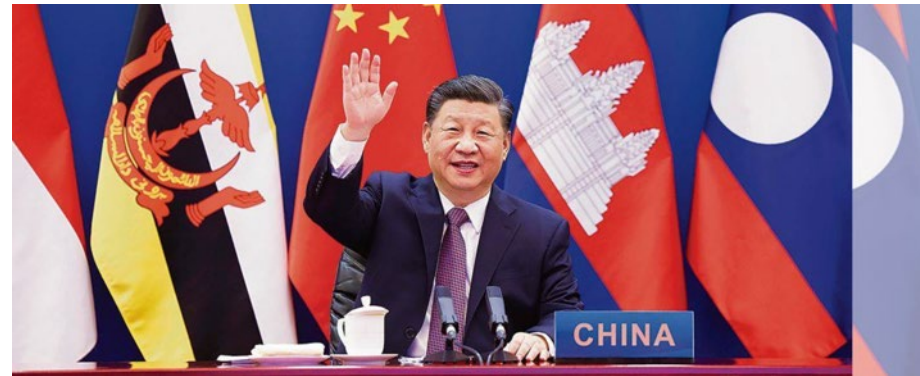
- The sources of global economic growth have shifted dramatically in recent decades.
- Developed economies are struggling to generate economic growth.
- Emerging markets have been the source of much of the 21st century's economic growth.
- Nearly all economies are facing increasing headwinds.

Key Economic Issues



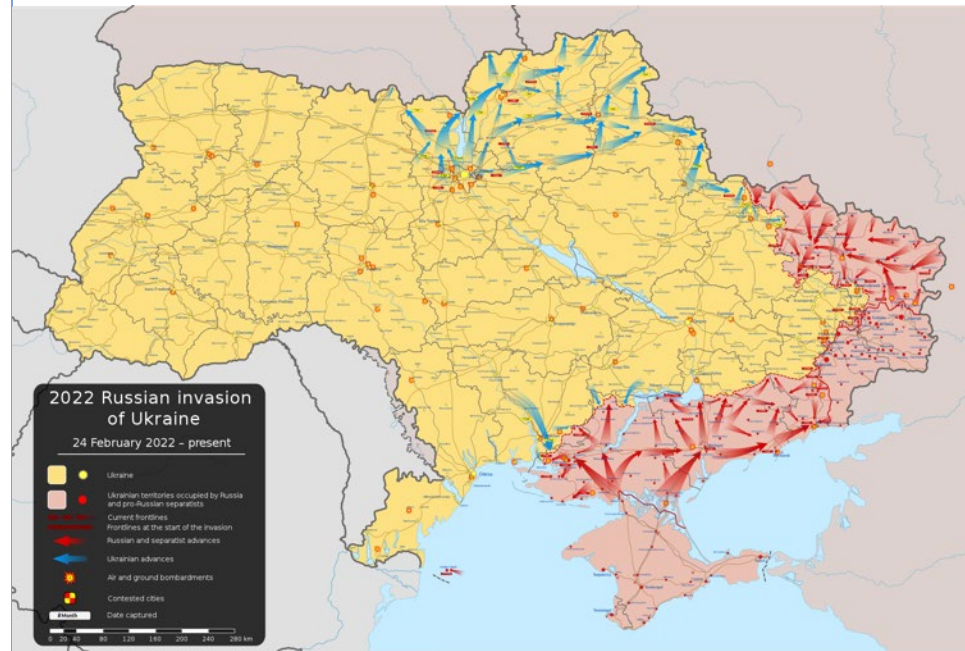
Geopolitical Tensions

- Russia's invasion of Ukraine is having an impact on many sectors of the global economy.
- China's deteriorating relationship with the US and other major economies threatens to decouple the global economy.
- Internal political divisions in the US, Europe and many other key economic centers threatens their ability to face economic threats.



The War in Ukraine: The State of the Conflict

- Russia's efforts to win a quick victory in Ukraine failed spectacularly.
- Russian forces lost the Battle of Kyiv and were driven from northern areas of Ukraine.
- Russia is now concentrating its efforts on securing territory in eastern and southern Ukraine.



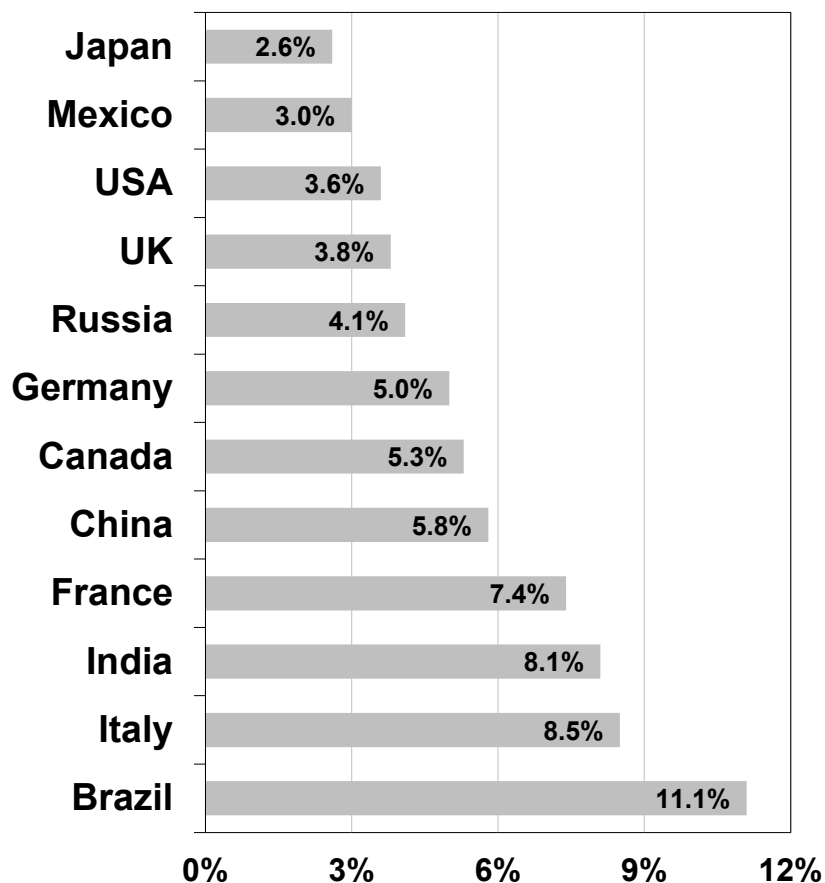
The War in Ukraine: The Economic Impact

- Russia and Ukraine will both suffer massive economic losses.
- Russia's economy has suffered major losses due to economic sanctions, but oil and gas exports continue to keep it afloat.
- Ukraine's economy is expected to shrink by at least 40% this year.
- Globally, the biggest impact has been rising commodity prices.



Labor Shortages

Latest Unemployment Rates



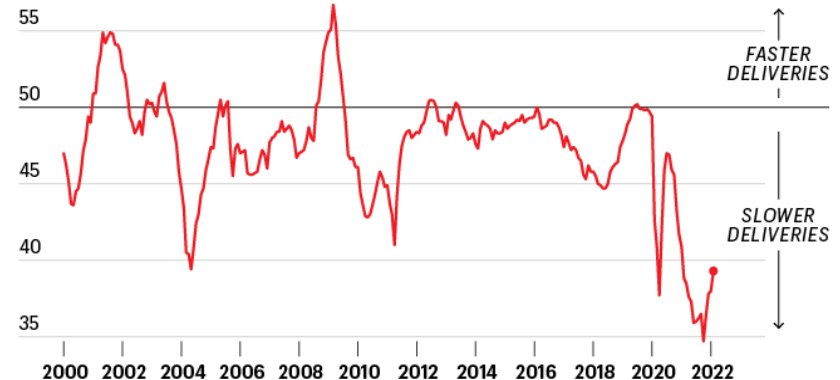
- Labor shortages have worsened dramatically in recent months.
- These labor shortages were foreseen for a long period of time.
- There are a number of causes.
 - Shrinking working-age populations
 - Changing attitudes towards work
 - High levels of demand for jobs in fast-growing sectors of the economy

Supply Chain Disruptions

- Supply chain disruptions have held down growth for many sectors of the economy and have contributed to rising inflation.
- These disruptions are expected to last at least until late 2022.
- There are many causes of these disruptions
 - Covid-19-related disruptions
 - Demand rising faster than supply
 - Logistical labor shortages

GLOBAL SUPPLIERS' DELIVERY TIME INDEX

Supply chain disruptions are a major issue as the world economy recovers from the COVID-19 pandemic. The suppliers' delivery times index captures the extent of supply chain delays.

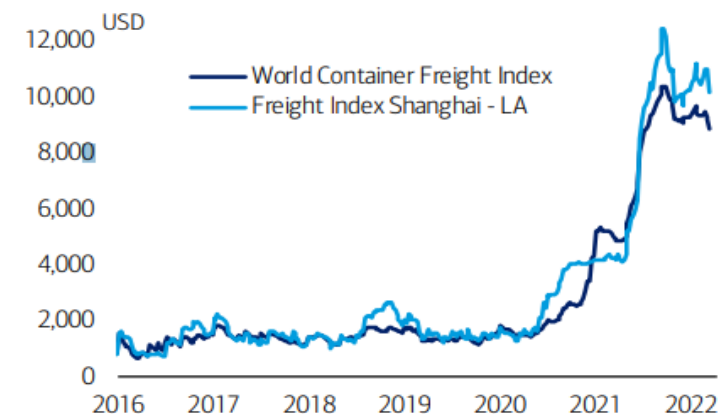


SOURCES: J.P.MORGAN, S&P GLOBAL MARKET INTELLIGENCE

FORTUNE

Exhibit 21: Global shipping costs remain elevated

Despite economic reopening

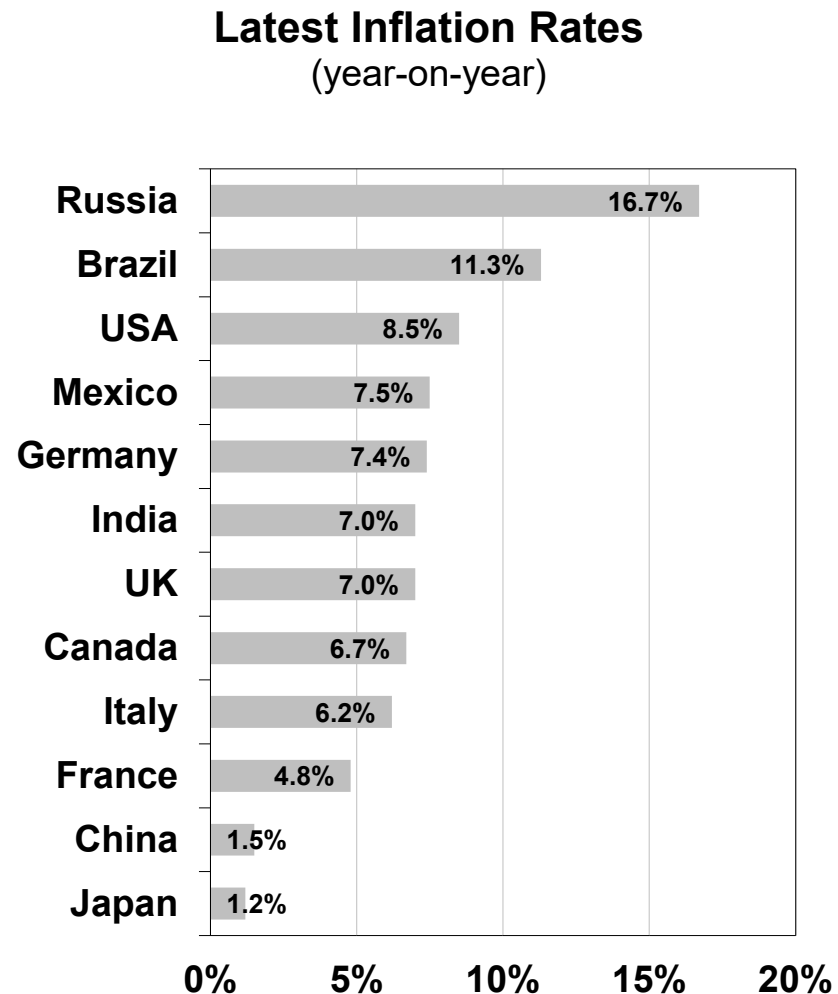


Source: Bloomberg

BofA GLOBAL RESEARCH

Inflation

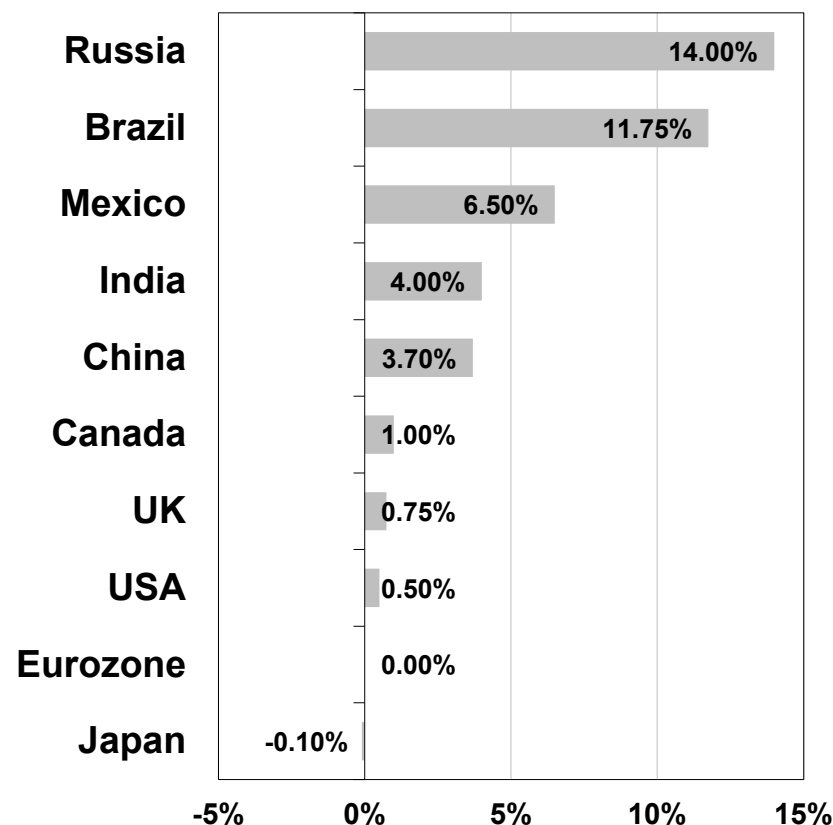
- Inflationary pressures have exceeded expectations.
- Higher levels of inflation are now expected to last into 2023.
- Many causes, including:
 - Supply / Demand imbalance
 - Supply chain disruptions
 - Higher commodity prices
 - Higher labor costs
 - Higher housing prices
 - Too much government stimulus
 - Russia's invasion of Ukraine



Interest Rates

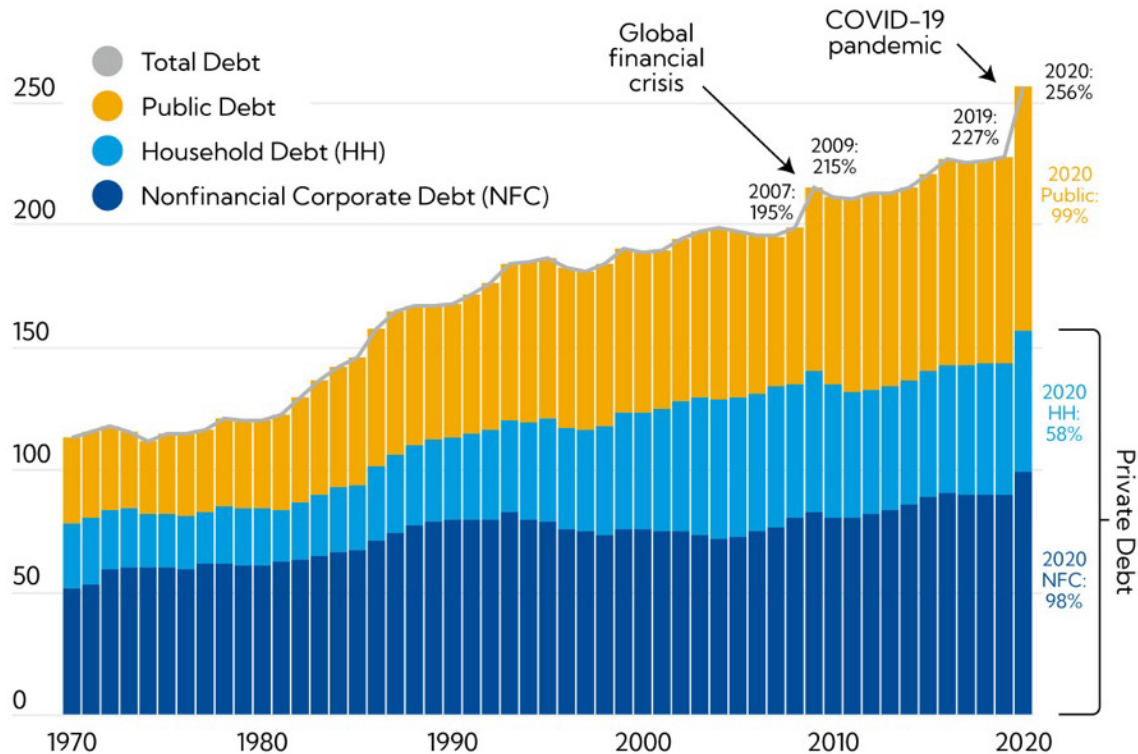
- Interest rate hikes had been seen as a distant prospect prior to recent surge in inflation.
- Many central banks now enacting or at least considering near-term interest rate hikes.
- Stronger economies likely to raise rates sooner than struggling economies.

Latest Benchmark Interest Rates



Historic highs

In 2020, global debt experienced the largest surge in 50 years.
(debt as a percent of GDP)



Sources: IMF Global Debt Database and IMF staff calculations.

Note: The estimated ratios of global debt to GDP are weighted by each country's GDP in US dollars.

IMF

Takeaways on Key Economic Issues

- Geopolitical tensions are on the rise.
- Labor shortages are here to stay.
- Supply chain disruptions will take some time to resolve.
- Inflationary pressures will remain high throughout 2022.
- Interest rate hikes are coming sooner than expected.
- Rising debt levels are a major long-term threat.

Regional Outlooks



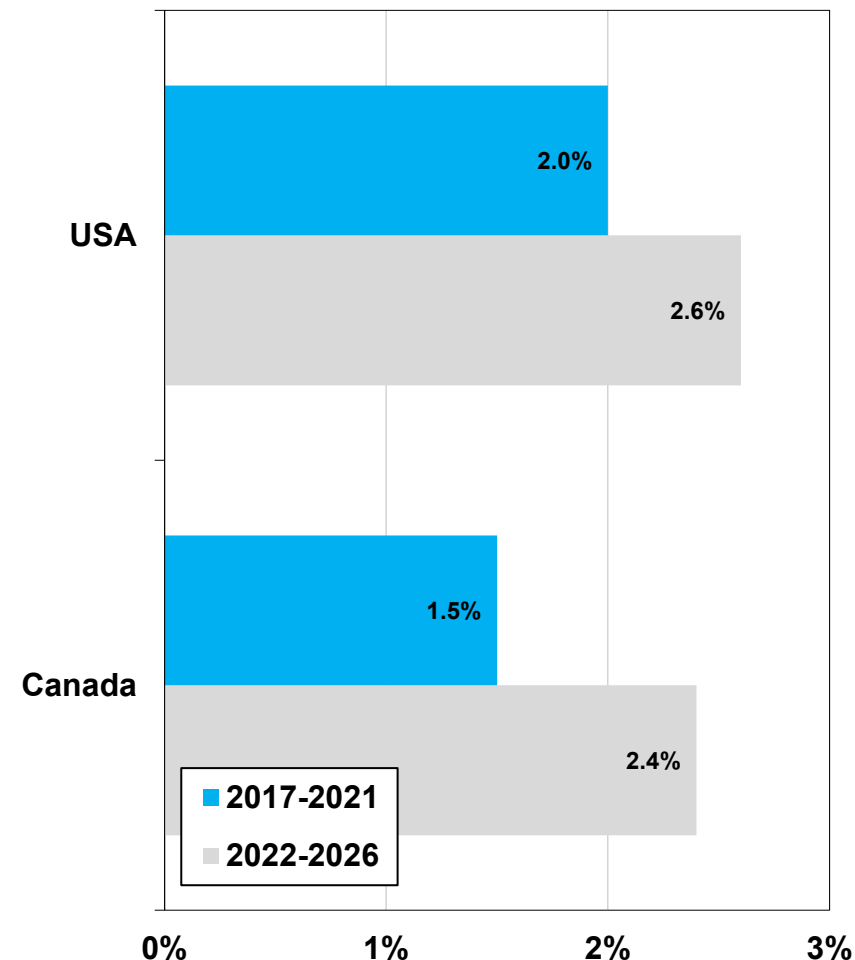
North America

- The United States has had one of the strongest economic recoveries of any major economy, but hit a slowdown in Q1 2022.
- Canada too has managed to stage a relatively strong recovery.

What to Watch in 2022:

Mid-term elections in the US
Inflationary pressures

Average Annual GDP Growth Rates



Latin America

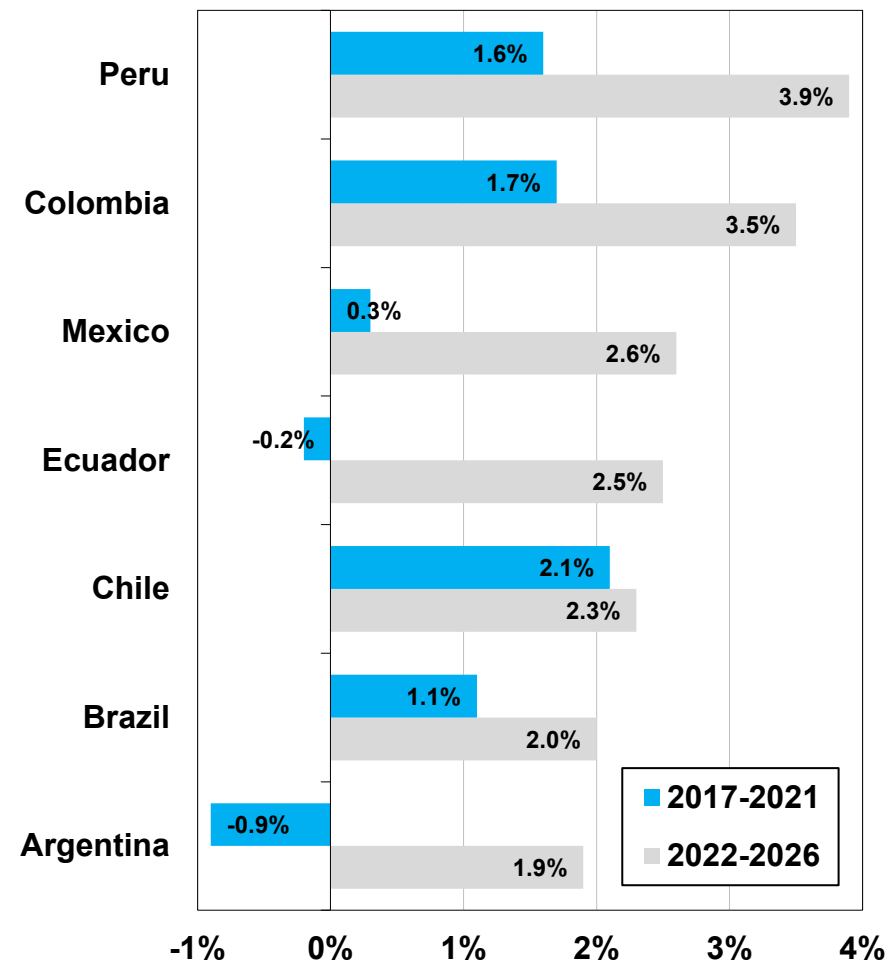
- Latin America suffered some of the greatest losses during the Covid-19 pandemic.
- The region's largest economies (Brazil, Mexico and Argentina) are largely to blame.

What to Watch in 2022:

Brazil's presidential election

Argentina's debt crisis

Average Annual GDP Growth Rates



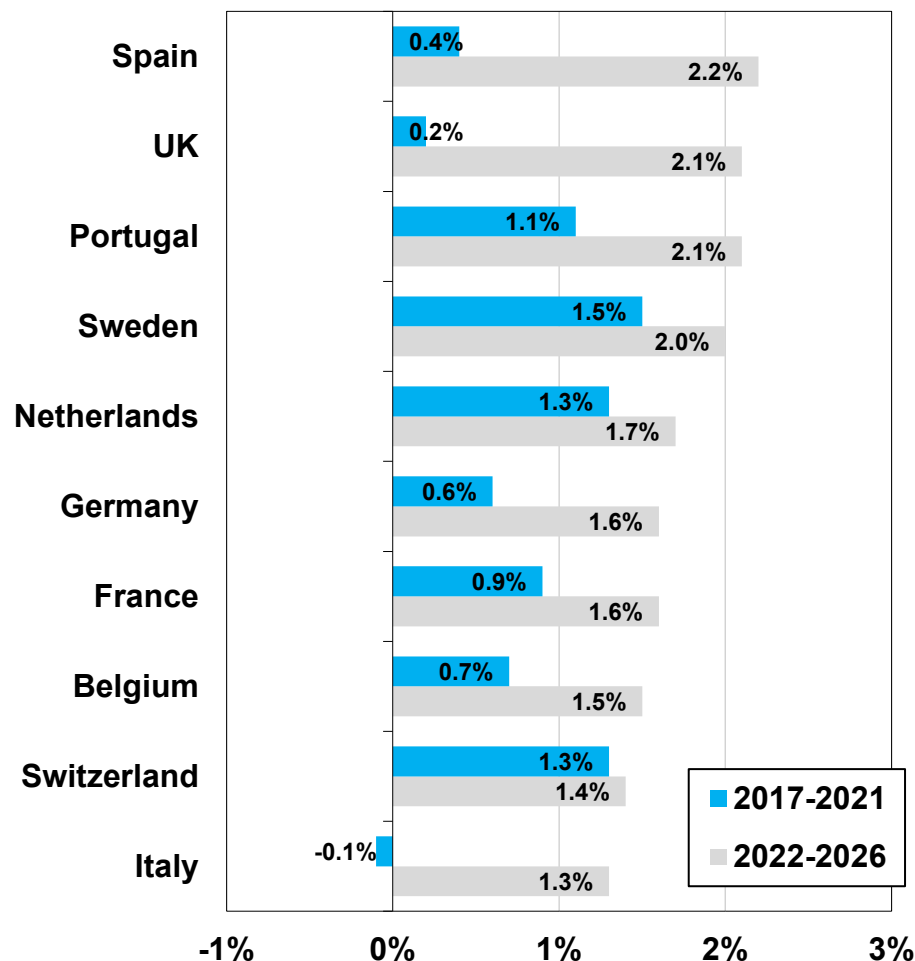
West Europe

- Europe's economy has staged a relatively strong recovery from 2020's severe recession but is now facing major disruptions.
- Europe needs to boost its presence in high-tech, high-growth sectors of the economy.

What to Watch in 2022:

The response to the war in Ukraine
Soaring energy prices

Average Annual GDP Growth Rates



Central and East Europe

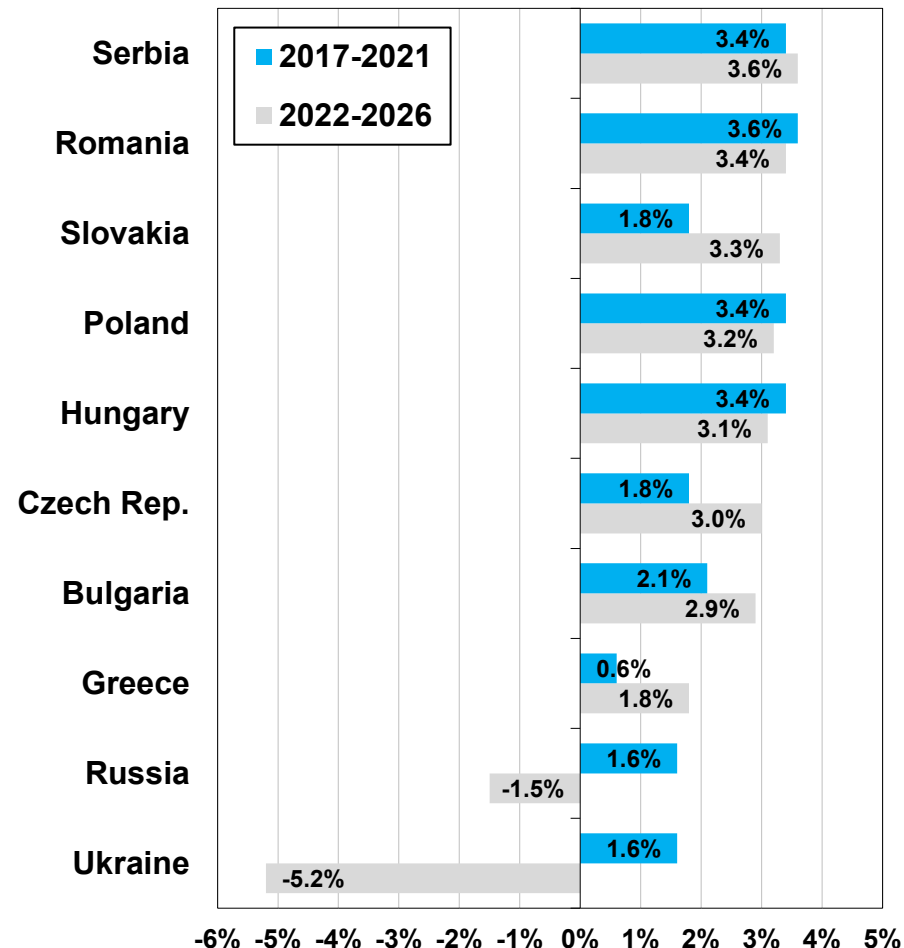
- Russia's invasion of Ukraine has raised political tensions in this region to their highest levels in decades.
- Central Europe suffered the greatest per capita human losses from the Covid-19 pandemic.

What to Watch in 2022:

The war in Ukraine

More foreign investment in Central Europe

Average Annual GDP Growth Rates



Middle East and North Africa

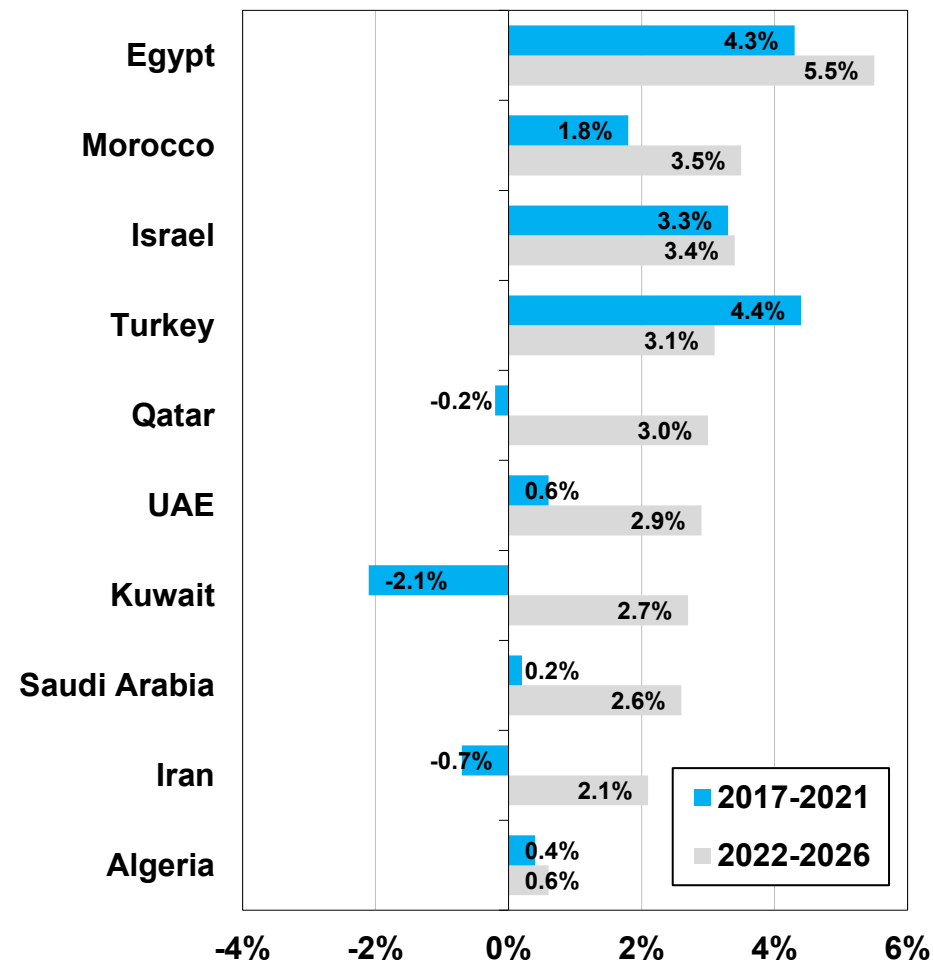
- Higher oil and gas prices are providing a boost for many of the region's leading economies.
- Political unrest remains a deterrent to investment in the region.

What to Watch in 2022:

Iran's nuclear program

Turkey's unorthodox economics

Average Annual GDP Growth Rates



Sub-Saharan Africa

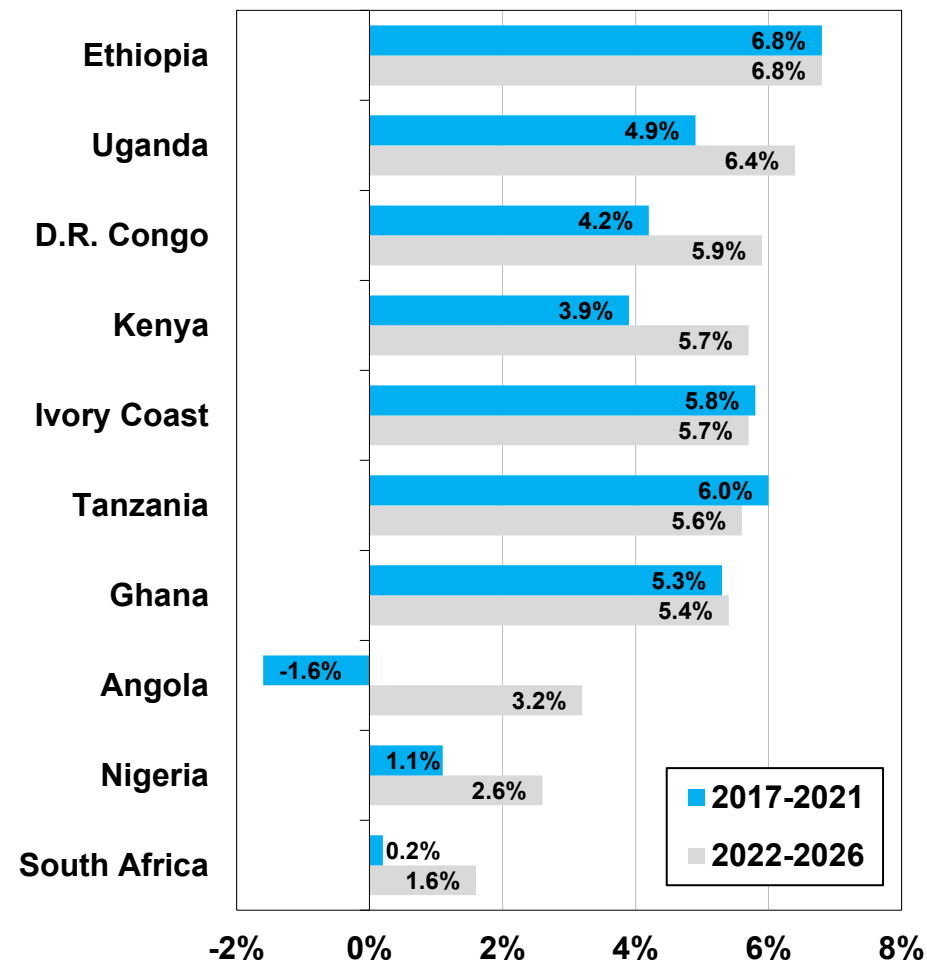
- Economic growth rates have been disappointing in recent years.
- Political unrest continues to destabilize much of the region.
- This region's population will grow by one billion by the year 2050.

What to Watch in 2022:

Unsustainable debt

Unrest in the region's largest countries

Average Annual GDP Growth Rates



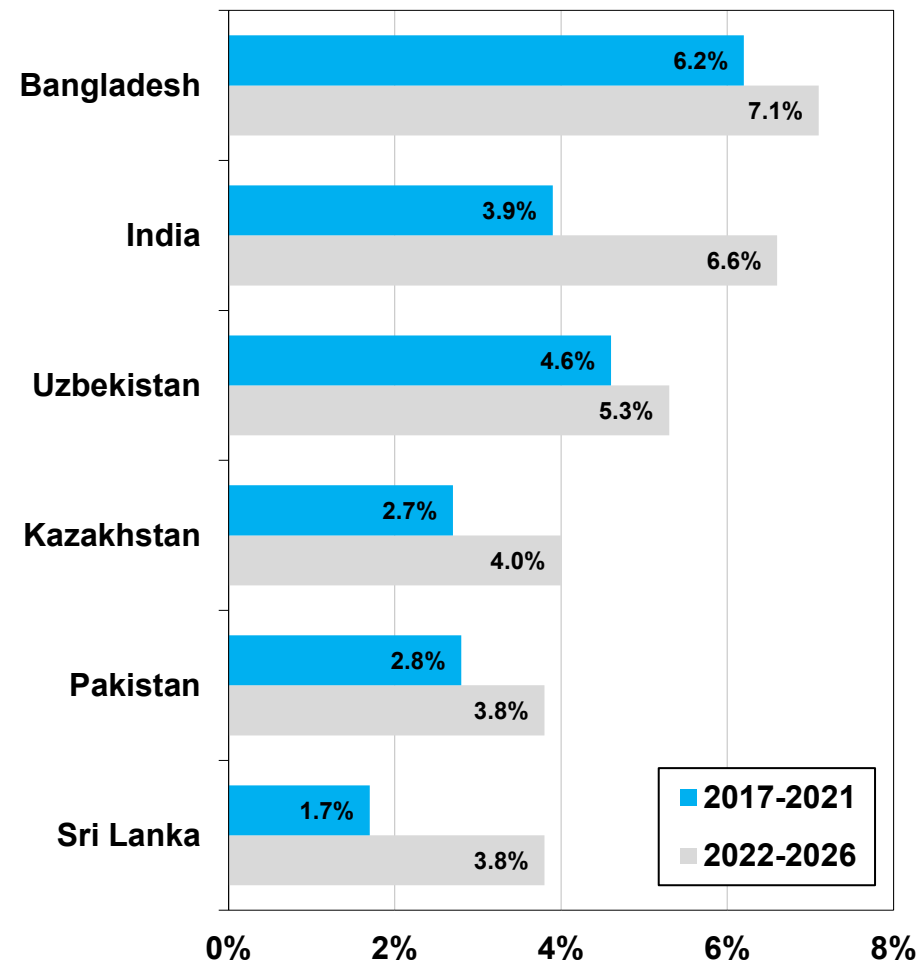
Central and South Asia

- India's economy has been highly volatile in recent years.
- Political stability has proven to be elusive in this region.
- This region's population will soon pass two billion.

What to Watch in 2022:

The Taliban in Afghanistan
India-China relations

Average Annual GDP Growth Rates



East Asia and the Pacific

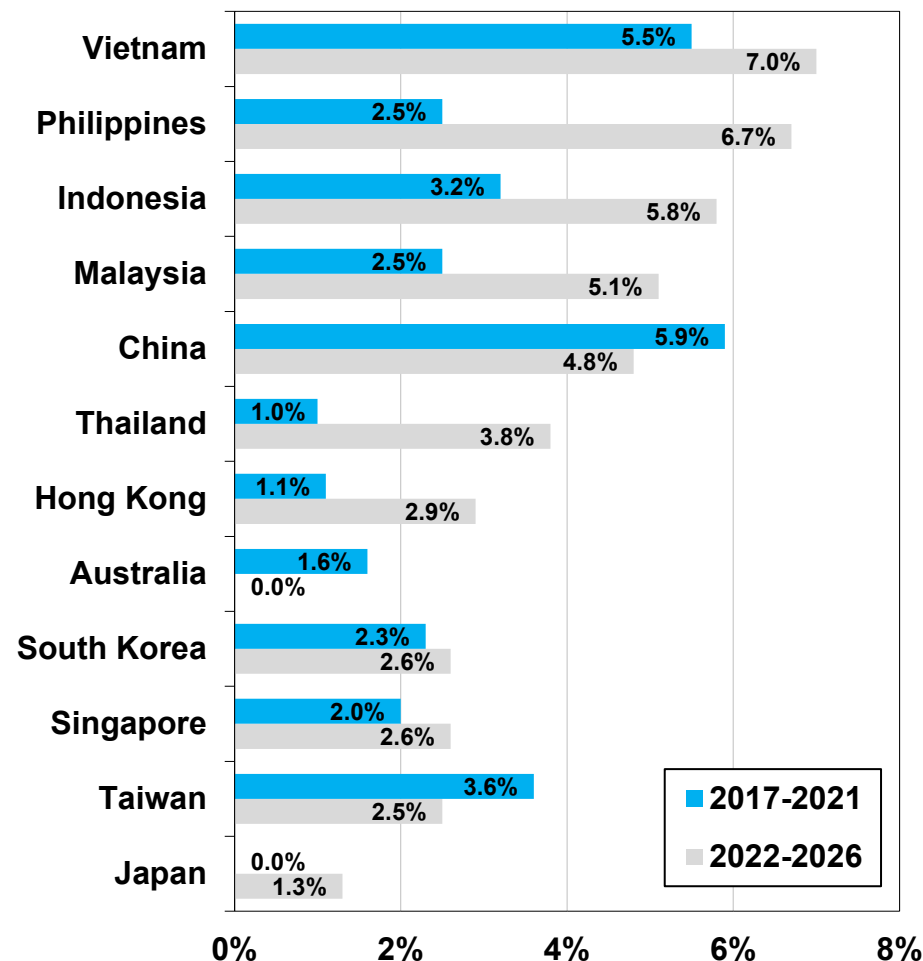
- China's relations with the US, Asia and the world will be in focus.
- The threat of decoupling could destabilize the global economy.
- This region continues to generate much of the world's economic growth.

What to Watch in 2022:

China and Taiwan

China's Zero-Covid Policy

Average Annual GDP Growth Rates

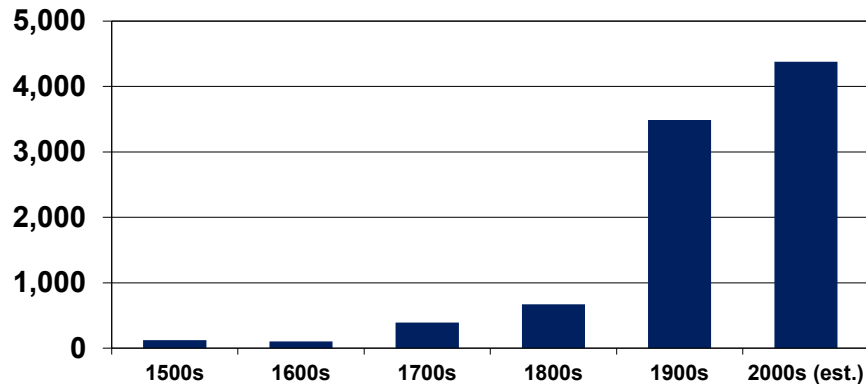


Demographics and the Global Economy



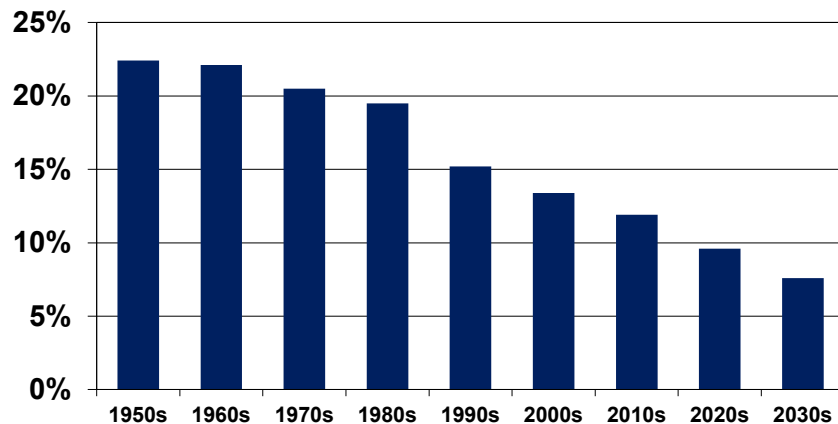
Long-Term Global Population Trends

Increase in the Global Population by Century
(in millions)



Source: UN

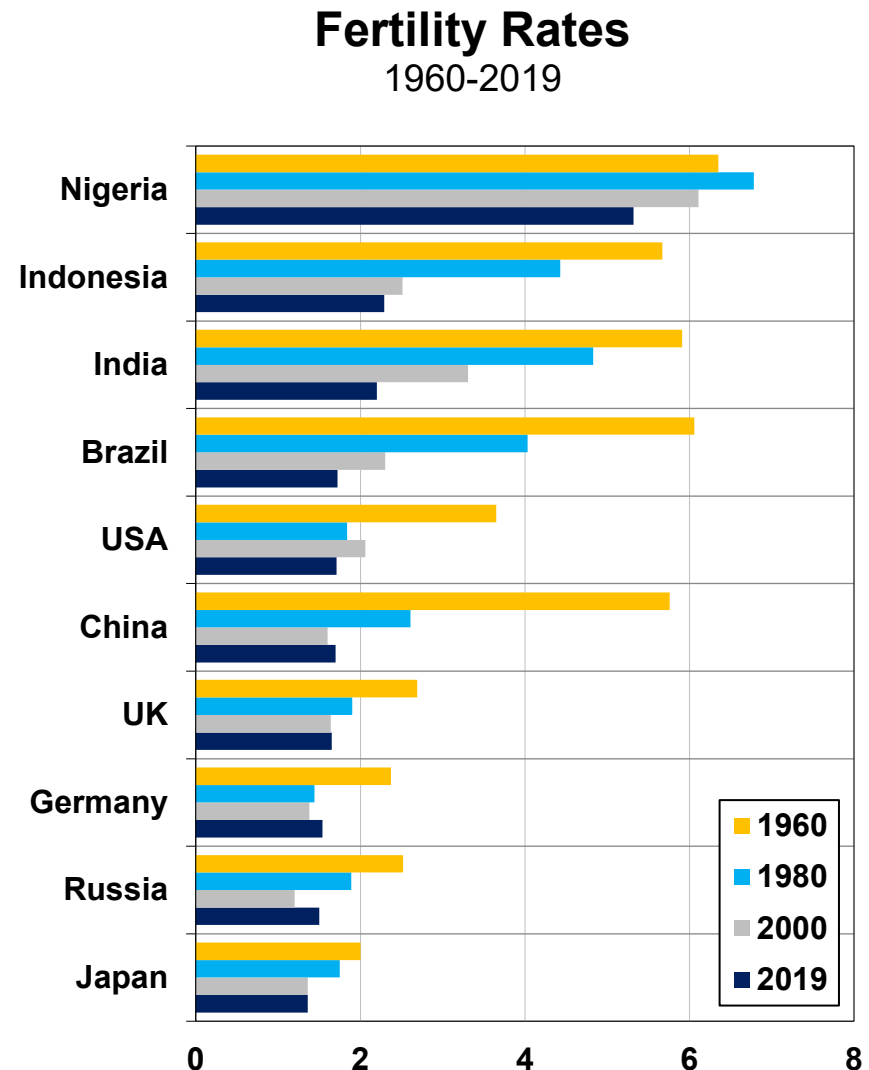
Global Population Growth Rate by Decade



- A 200-year population explosion is coming to an end.
- Population growth is slowing in most major economic centers.
- This population growth is happening faster than expected.
- Population growth was a leading catalyst for the world's economic growth since the Industrial Revolution.

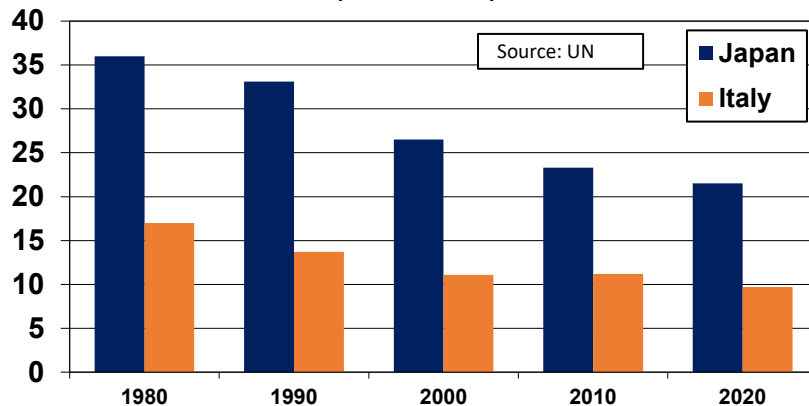
Collapsing Fertility Rates

- Fertility rates have plummeted to well below replacement levels in most major economies.
- Population growth is even slowing in what had been regions with high rates of population growth.
- Fertility rates fell even more dramatically during the Covid-19 pandemic.

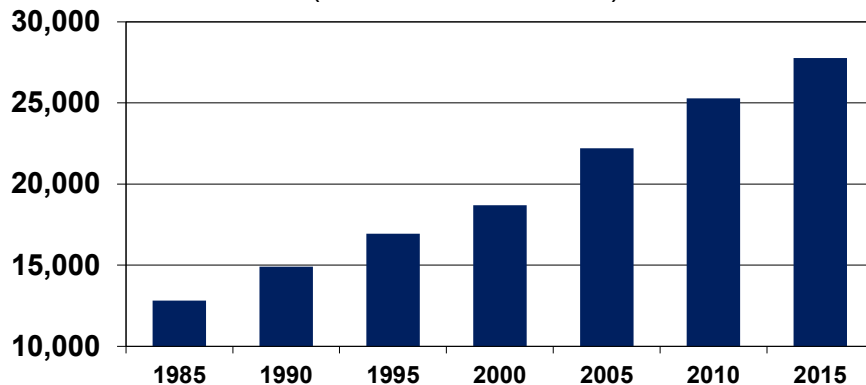


The Global Youth Population

Under-18 Population of Japan and Italy
(in millions)



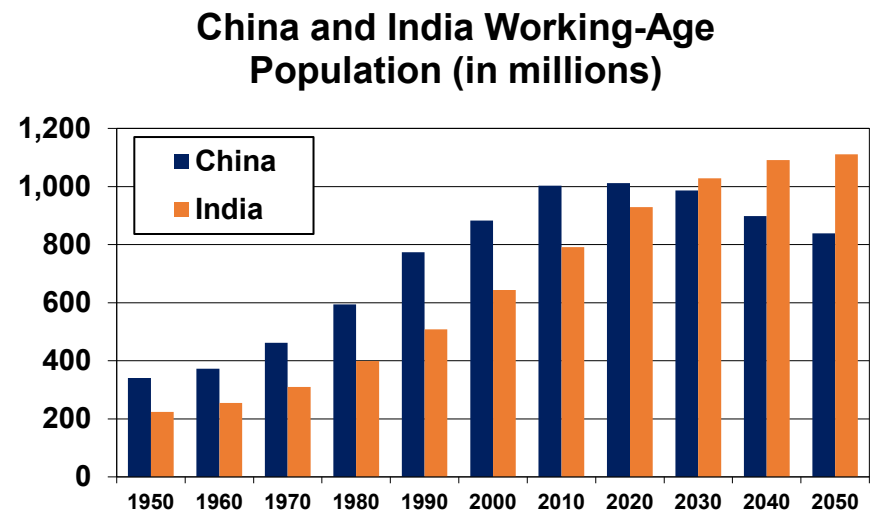
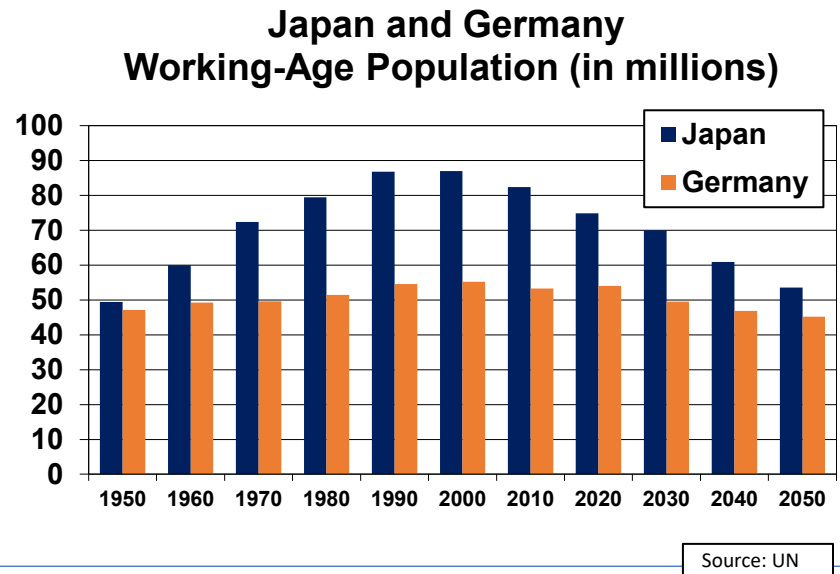
Average Tuition Cost of a Four-Year College in the United States
(Constant US Dollars)



- Lower birth rates have led to falling youth populations in most major economies.
- There are a variety of reasons for this decline in birth rates.
- This will further reduce the growth of the world's working-age population in the coming decades.

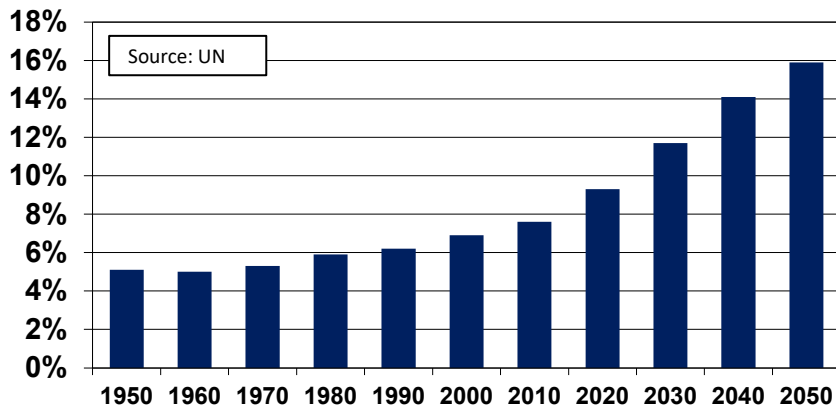
Stagnating and Falling Working-Age Populations

- Rising working-age populations were the catalyst for many countries' economic expansions.
- Working-age population growth has ended in a number of leading economies.
- Some emerging markets are also facing a slowdown in the expansion of their working-age populations.



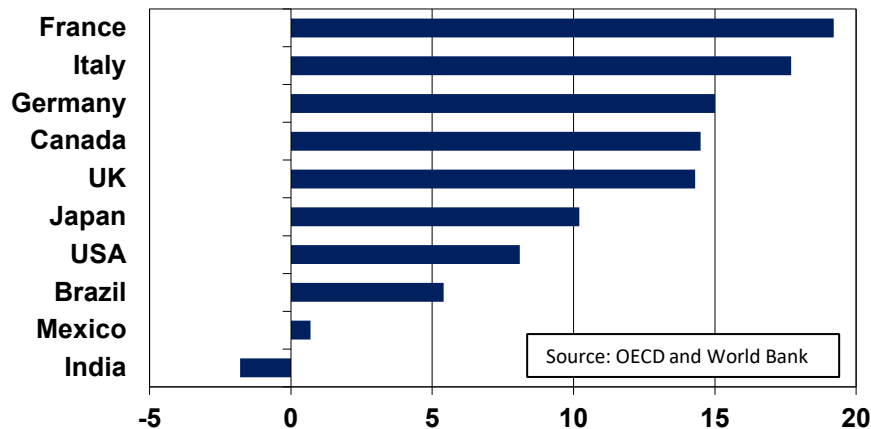
The World's Population is Getting Older

Share of the Global Population That is Over the Age of 65

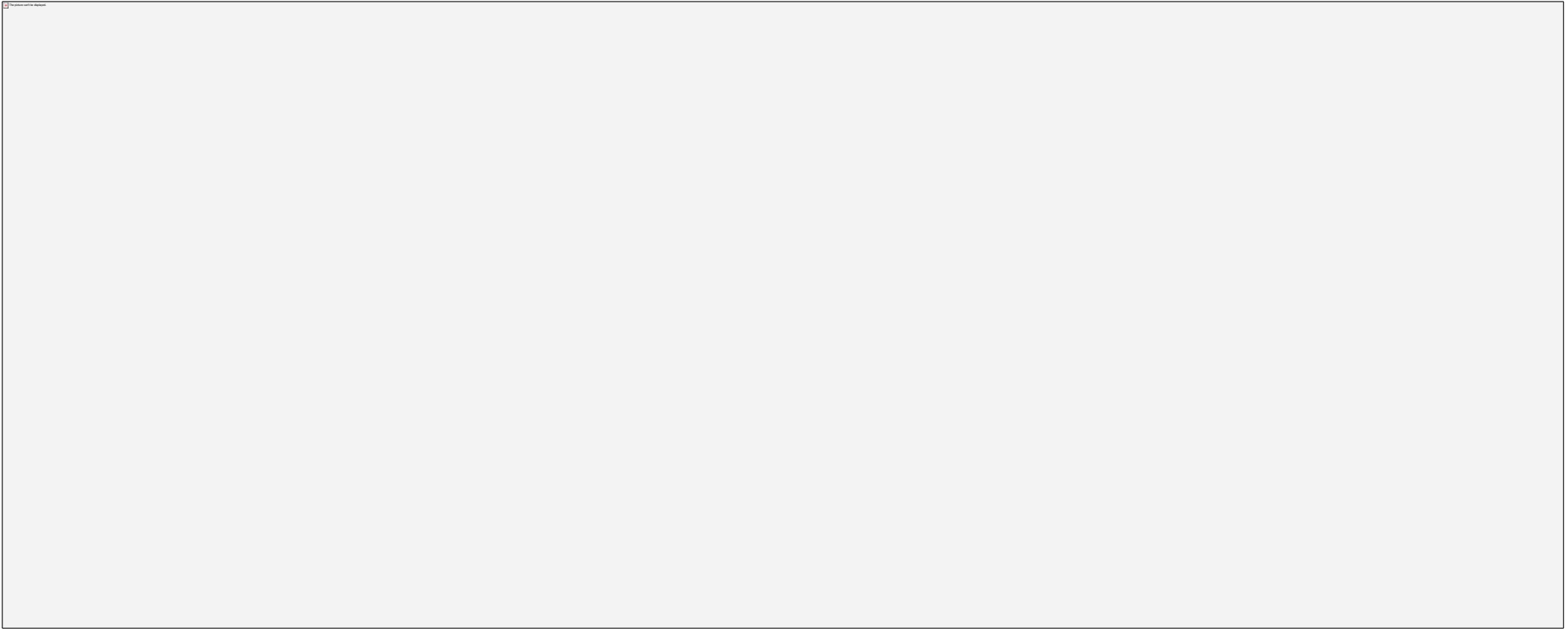


- Over-65s represent the fastest growth segment of the world's population.
- The share of the world's population over the age of 65 will rise from 9% today to 16% in 2050.
- This increase will place great strains on public finances in the coming decades.

Average Life Expectancy Over Average Effective Retirement Age (males, in years)



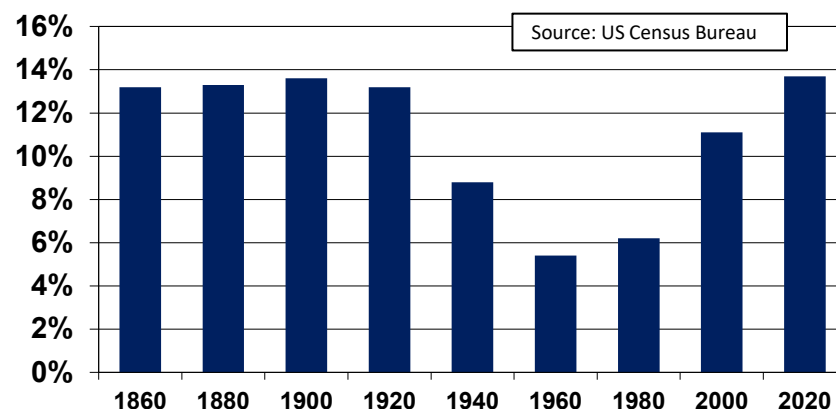
The Fiscal Impact of an Aging Population



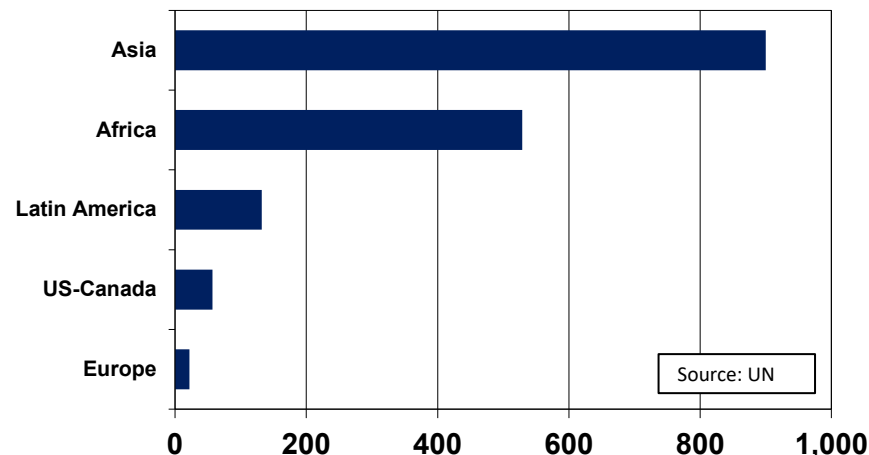
The Immigration Question

- For most major economies, immigration is the only answer to falling working-age populations.
- However, anti-immigration sentiment has risen in many areas of the world.
- Meanwhile, soaring working-age populations in the poorest areas of the world need an outlet for their surpluses of potential workers.

Immigrants as a Percentage of the United States Population



**Population Increase by Region
2020-2050 (in millions)**



Demographic Takeaways

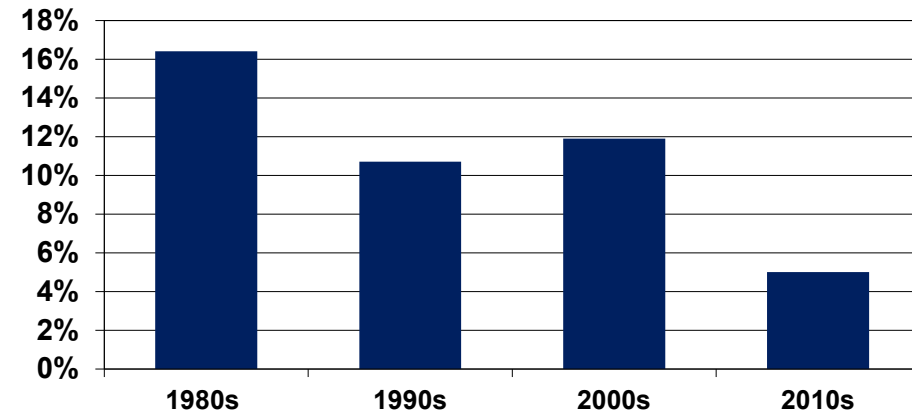
- For the first time since the 18th century, global population growth is undergoing a major slowdown.
- The biggest impact of this trend will be the eventual decline in working-age populations in all major economies.
- This will place great strains on public finances and institutions.
- Extending the productive lives of people in these economies is necessary to prevent a major drag on economic growth.

Trade and Investment and the Global Economy



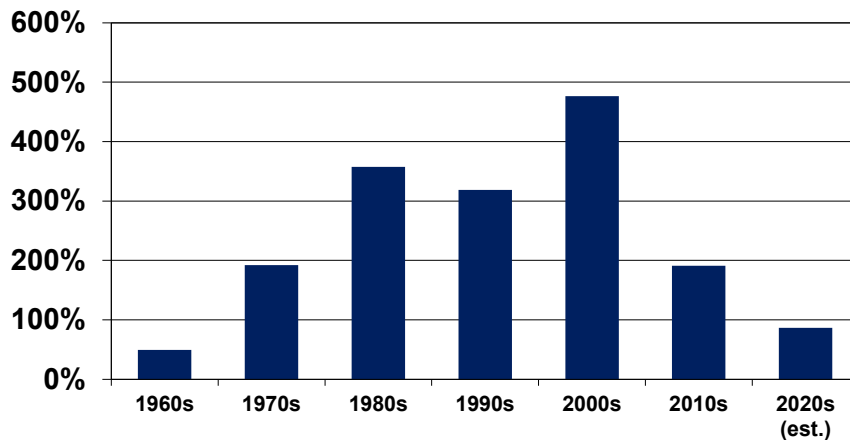
Long-Term Global Trade Trends

Average Annual Global Merchandise Trade Growth by Decade



Source: UNCTAD

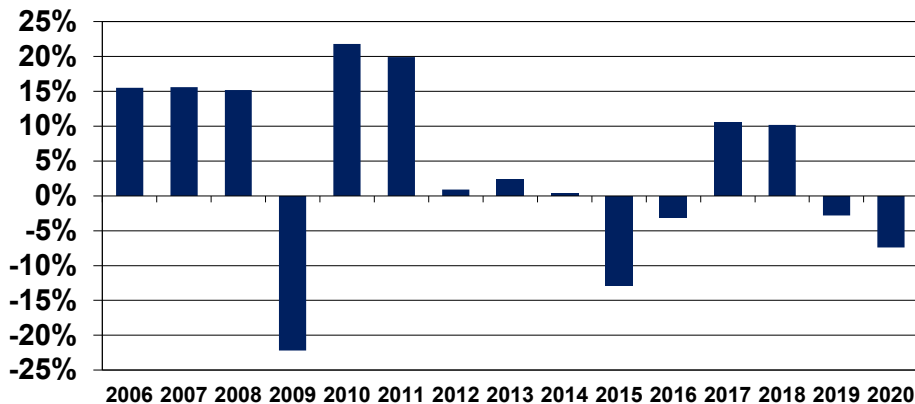
Chinese Merchandise Export Growth by Decade



- Global trade expanded at a remarkable pace in the decades following World War Two.
- By the late 20th and early 21st centuries, global trade was the leading generator of global economic growth.
- In the 21st century, Asia, especially China, became the center of global trade.

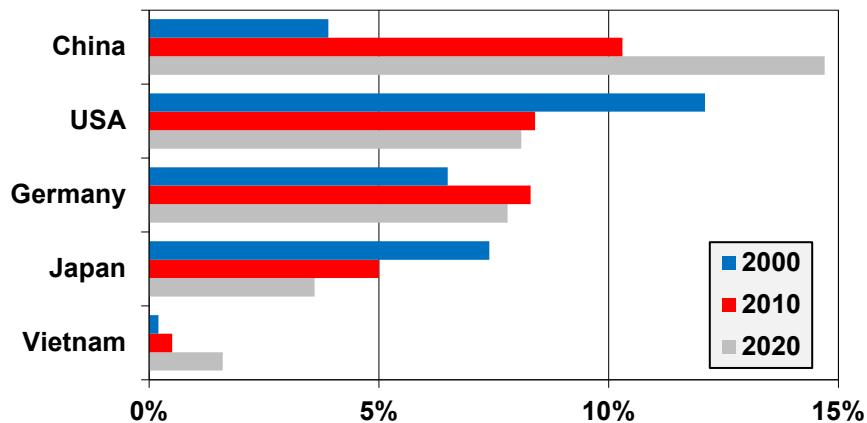
Recent Global Trade Trends

Global Merchandise Trade Growth



Source: UNCTAD

Share of Global Manufactured Exports

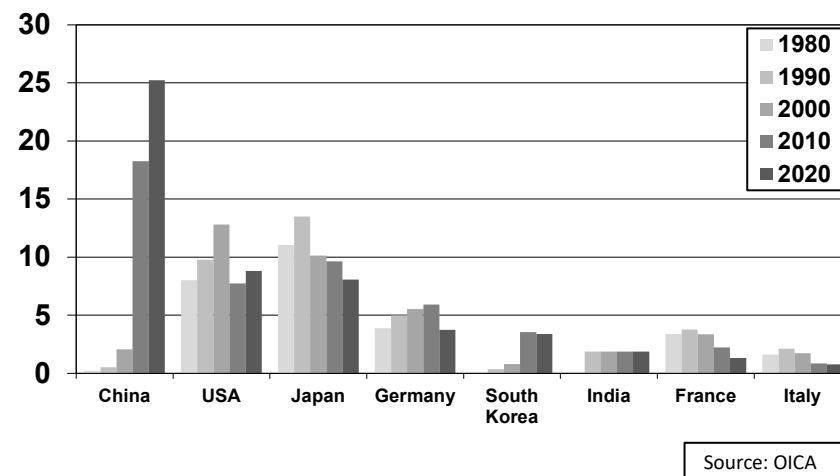


- Global trade levels have been stagnant over the past decade.
- Trade growth has remained strong in China and other Asian emerging markets, but has slumped in most other parts of the world.
- Less competitive economies have lost export market share in recent years.

The Automotive Industry Example

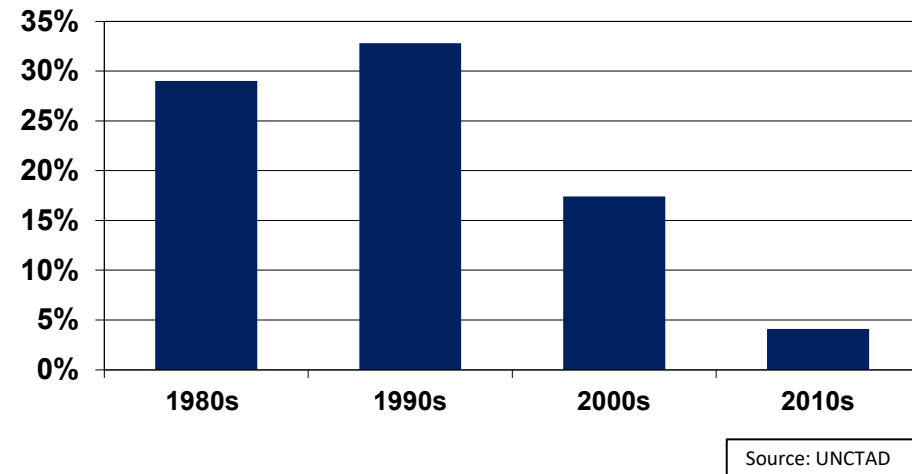
- The footprint of the automotive industry has shifted dramatically.
- Traditional centers of the industry (US, Japan and Germany) retain key positions in the industry.
- Secondary traditional centers (France, Italy, etc) have lost ground in recent decades.
- China is now the dominant center of automotive production, while others have also made gains.

Automotive Production by Country
(in millions)



Long-Term Foreign Investment Trends

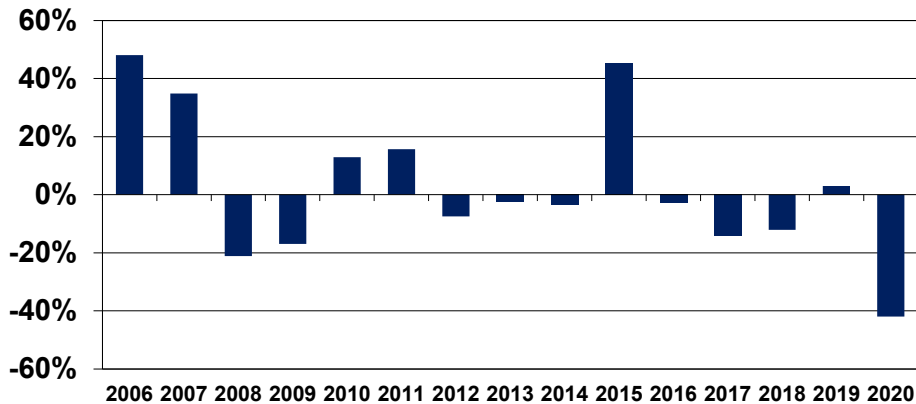
Average Annual Global Foreign Investment Growth by Decade



- Foreign investment growth was another catalyst for global economic growth in the late 20th and early 21st centuries.
- Foreign investment growth has slowed dramatically in the 21st century.

Recent Foreign Investment Trends

Global Foreign Investment Growth



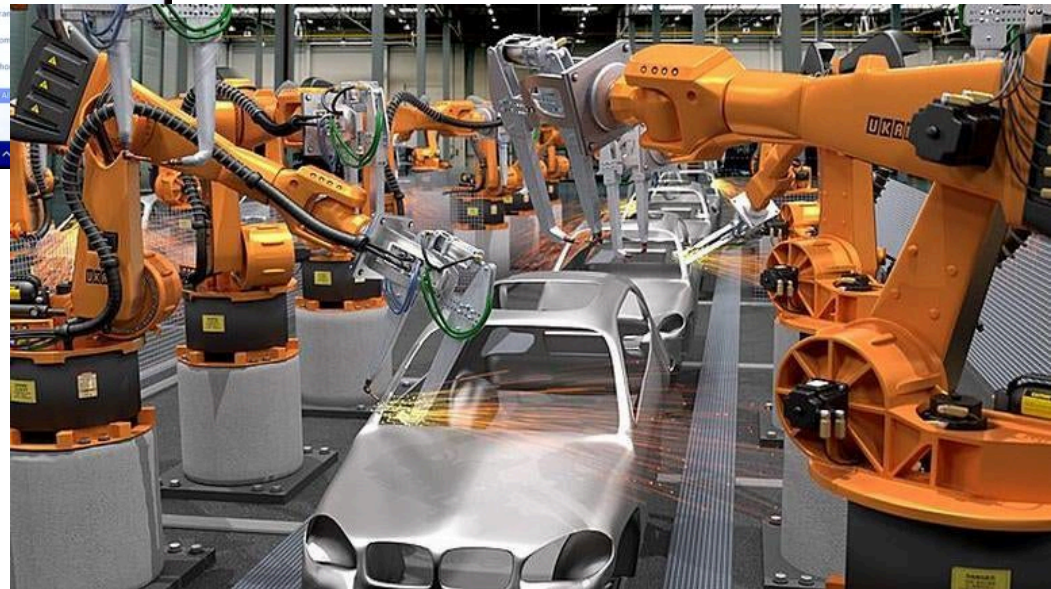
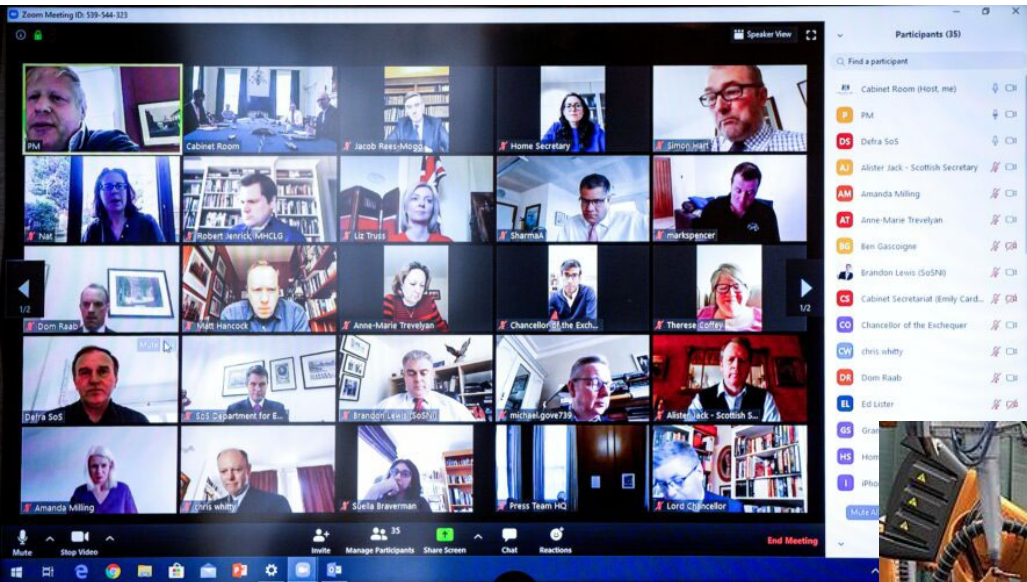
Source: UNCTAD

- Foreign investment levels are lower now than they were a decade ago.
- This reflects relatively low levels of business confidence.

Trade and Investment Takeaways

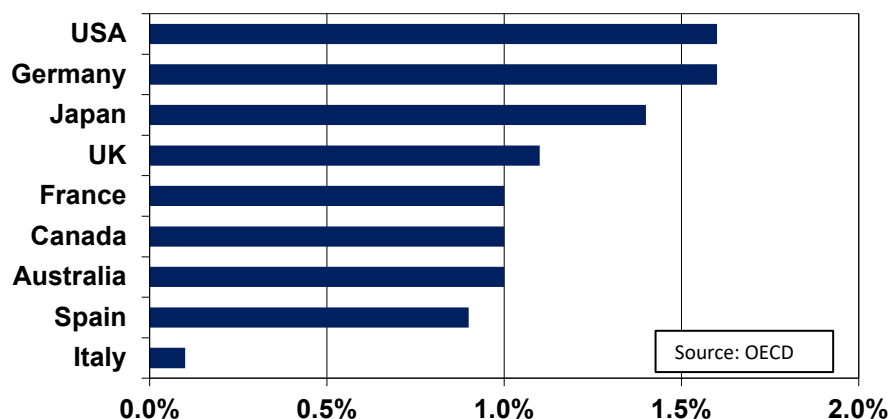
- Foreign trade and investment was the catalyst for much of the global economy's growth in the late 20th and early 21st centuries.
- Both foreign trade and investment growth have slowed over the past decade.
- Trade and investment are being boosted by regional trade deals but is being reduced by major international trade disputes.

Productivity and the Global Economy



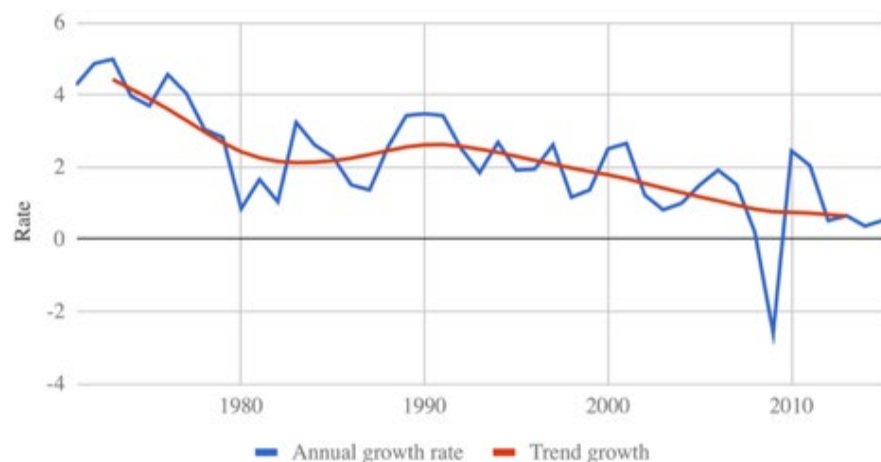
Long-Term Productivity Trends

**Average Annual Productivity Growth
(2010-2019)**



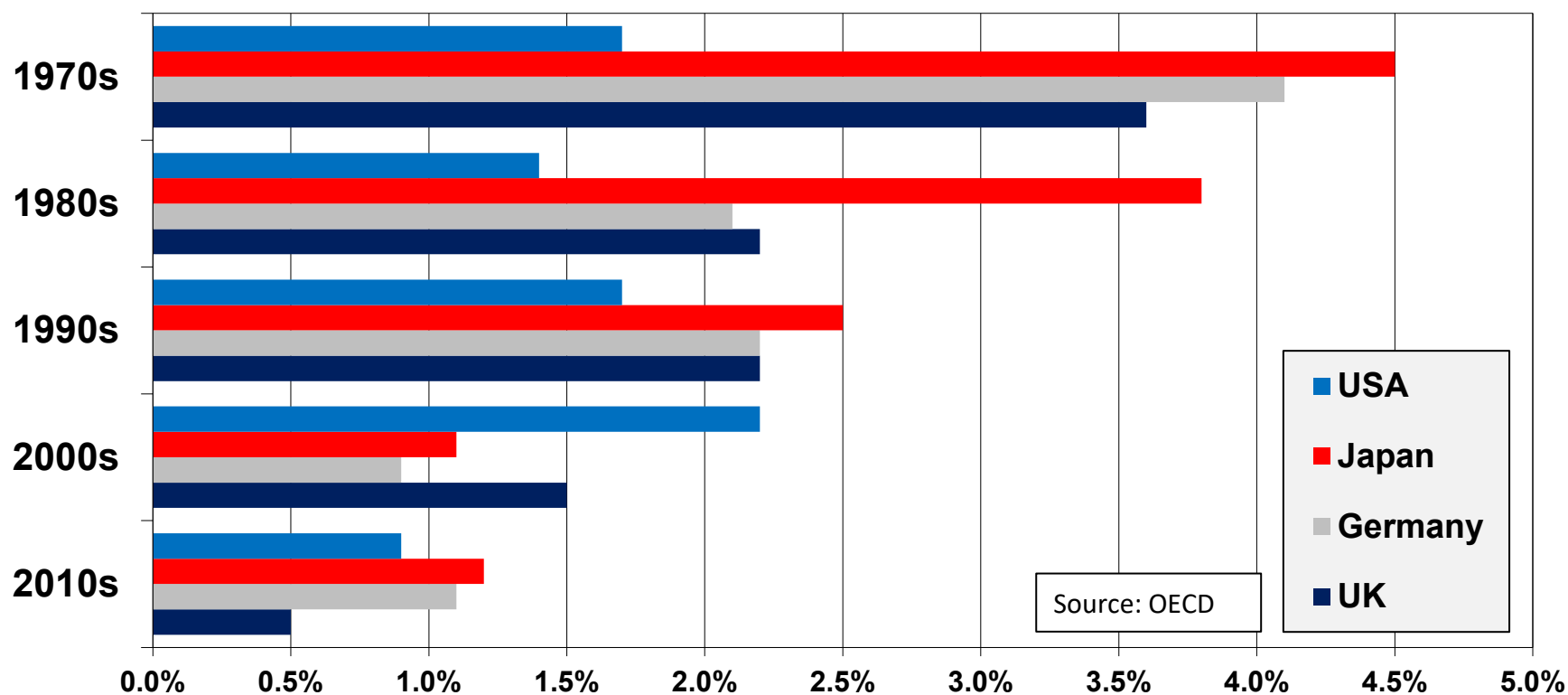
- Productivity growth rates have been trending downwards in most of the world's developed economies over the past 50 years.
- Some emerging markets have seen productivity growth rates remain relatively high, but they too are facing downwards pressures.

Germany Productivity Growth



Long-Term Productivity Growth Rates

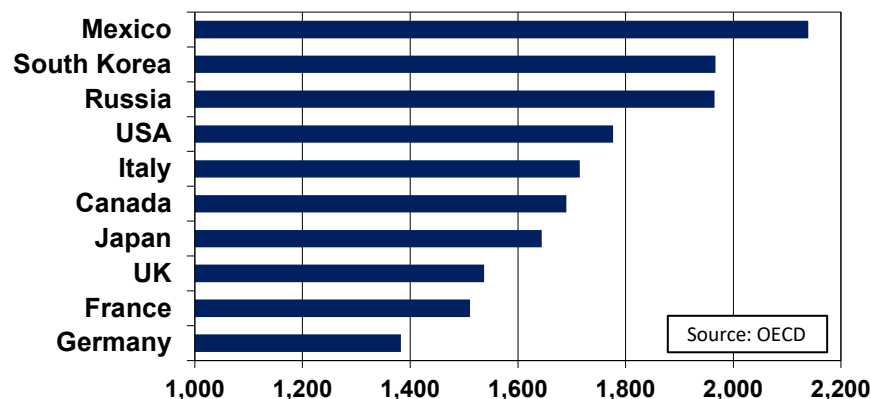
Average Annual Labor Productivity Growth by Decade



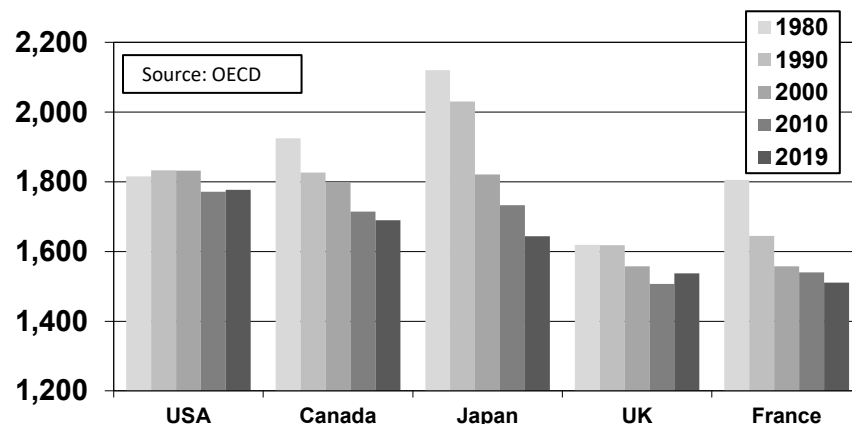
Working Hours

- Working hours in the United States have held steady over the past 40 years.
- Working hours in most other developed economies have trended downwards over the long-term.
- This is due to a combination of more free-time in other developed economies and a decline in demand for labor in these economies.

Hours Worked Per Week by the Average Worker in 2019

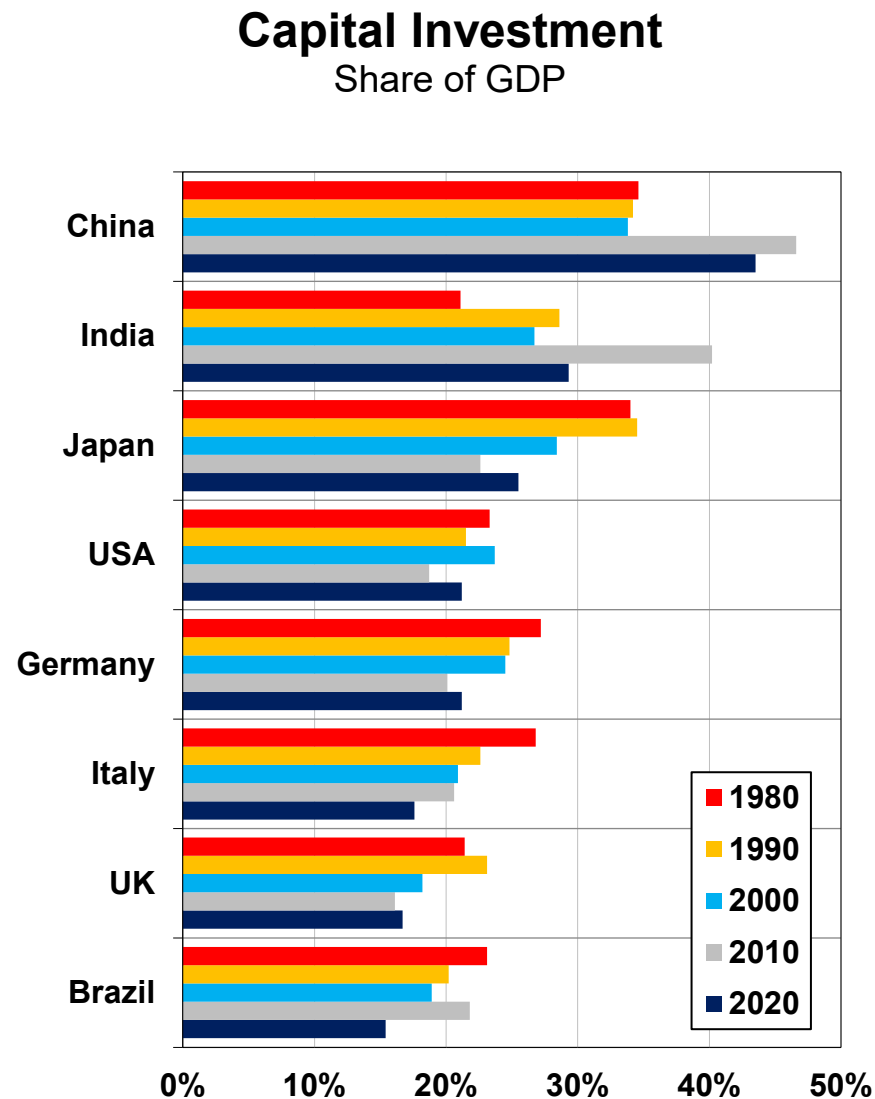


Average Hours Worked Per Year Per Worker



Capital Expenditures

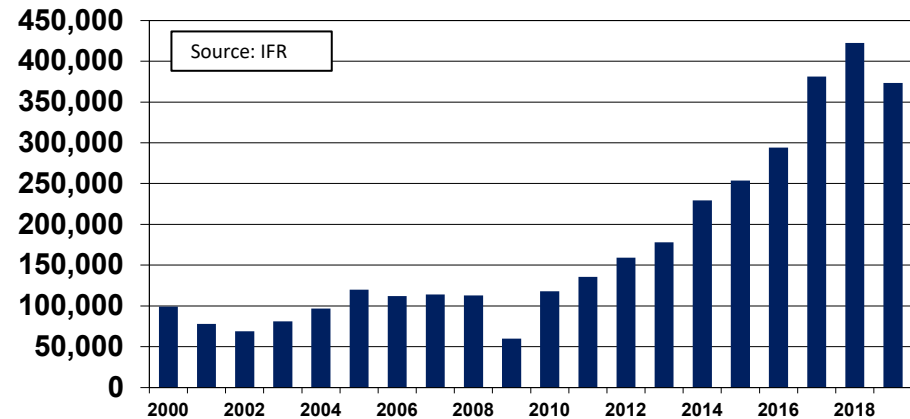
- Capital expenditures as a share of GDP have declined in most developed economies in recent decades.
- Asian emerging markets, most notably China, have seen major increases in capital expenditures.



New Technologies and Processes

- There are hopes that new technologies such as artificial intelligence and 3-D printing will have a positive impact on productivity.
- Many of the most-hyped technological breakthroughs of the 21st century have thus far not had a major impact on productivity.

Worldwide Supply of Industrial Robots

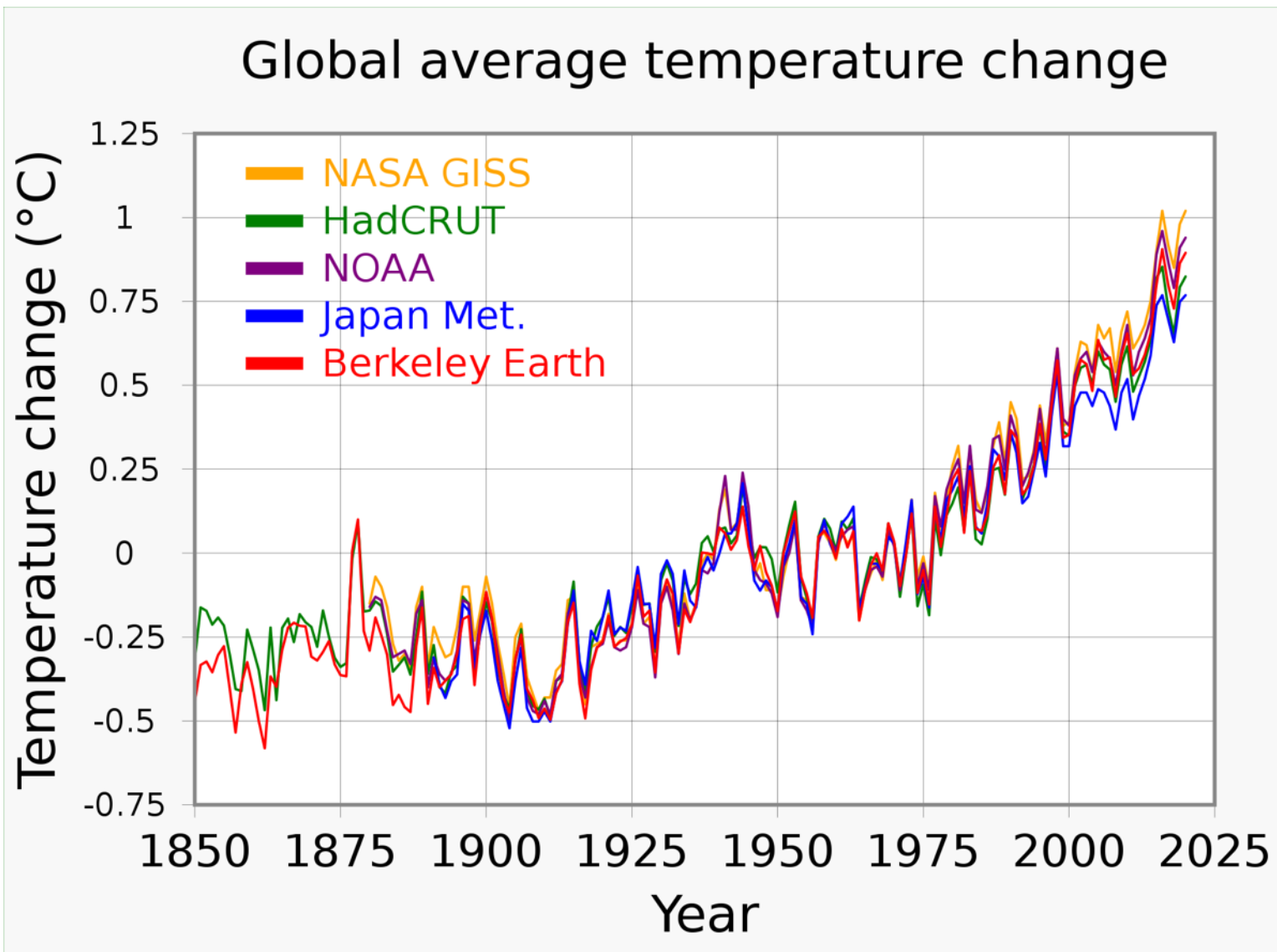


Productivity Takeaways

- Productivity growth rates have declined in most developed economies in recent decades.
- Productivity growth is increasingly concentrated in just a handful of economic sectors.
- Higher levels of productivity growth are needed to drive long-term economic growth.

The Health of the Planet and the Global Economy



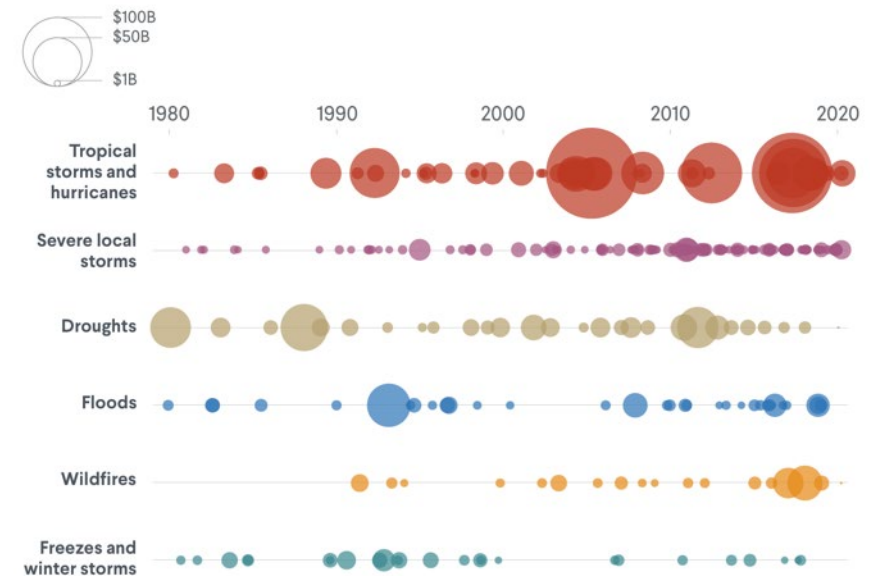


Natural Disasters

- The number and severity of climate-change-related natural disasters has trended upwards in recent decades.
- Many of the world's leading population centers are threatened by the impact of climate change.
- Population growth is now concentrated in areas at risk from natural disasters.

U.S. Faces Growing Number of Climate Disasters

Bubbles represent weather and climate disasters in the U.S. costing \$1 billion or more in 2020 dollars, sized according to total cost



Source: National Oceanic and Atmospheric Association.

COUNCIL on
FOREIGN
RELATIONS

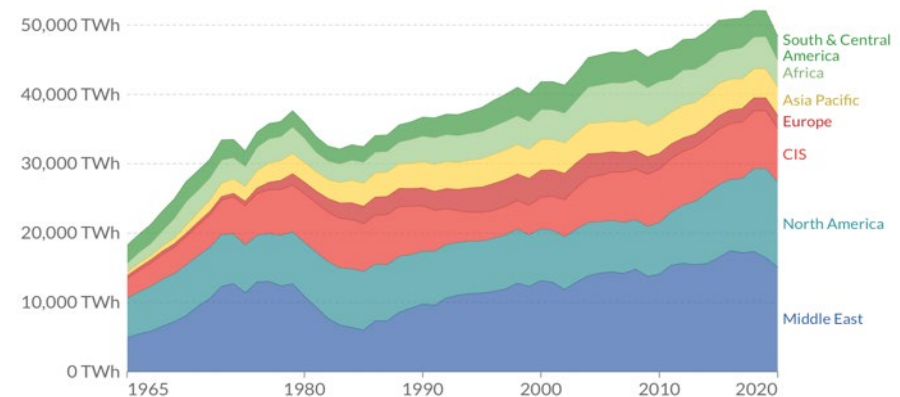
Natural Resources

- Resource depletion, including land and water resources, is a growing threat to many areas of the world.
- Competition for increasingly scarce resources is likely to be a major source of conflict.
- We are in the midst of a major transformation of the geopolitical aspect of natural resource control and allocation.

Oil production by region

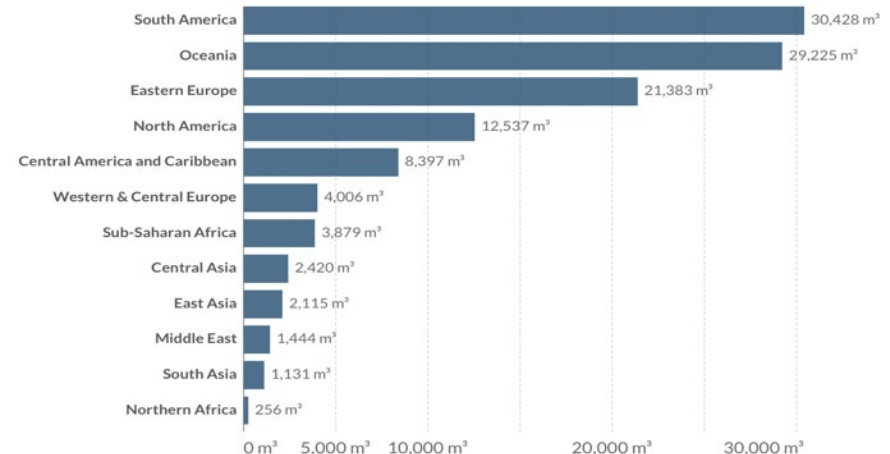
Annual oil production, measured in terawatt-hour (TWh) equivalents.

Relative



Per capita renewable freshwater resources, 2015

Average renewable freshwater resources per person, measured in cubic metres per person per year. Renewable internal freshwater resources refers to the quantity of internal freshwater from inflowing river basins and recharging groundwater aquifers.



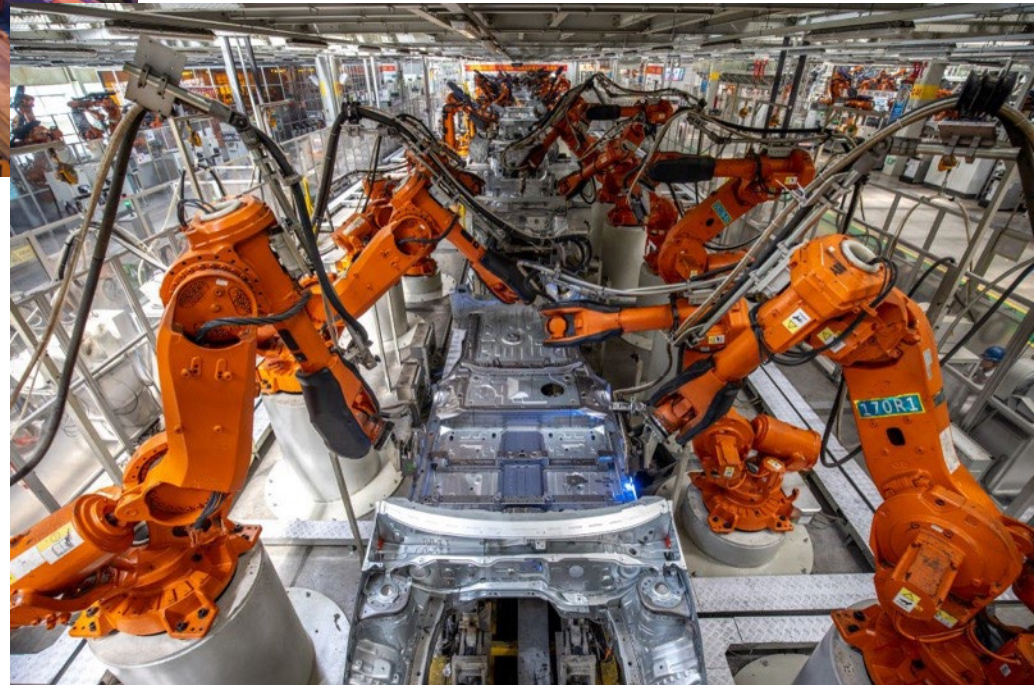
The Health of the Planet Takeaways

- Climate change is forecast to continue and will have a larger impact on the global economy in the decades to come.
- Industrialization in emerging markets is forecast to be the biggest challenge to combatting climate change.
- Control of vital resources will remain a major geopolitical challenge in the 21st century.

Summary of the Four Factors

- Demographic factors will become an increasing drag on the global economy.
- Trade and investment growth has been disappointing, but there is room for improvement.
- Productivity growth declines have been persistent, but there are hopes for higher growth rates in the future.
- Future economic growth must be achieved in a much more environmentally-friendly manner.

Summary



Key Risks

- The Covid-19 pandemic is likely to cause lingering disruptions to the global economy.
- Labor shortages, inflationary pressures and supply chain disruptions could persist longer than expected.
- Geopolitical tensions are likely to continue to have a major impact on the global economy.
- Generating long-term economic growth is likely to become increasingly difficult.

Key Opportunities

- The strong recovery in demand over the past two years is likely to continue over the near-term.
- Potential productivity breakthroughs could revive the global economy and its long-term outlook.
- New sectors of the economy and certain segments of the economy have the potential to generate very high rates of growth.

Key Takeaways

- Demographic trends will make it harder to generate economic growth in the coming years and decades.
- Disruptions to trade and investment can be avoided.
- The long-term decline in productivity growth needs to be reversed.
- Other threats such as climate change and geopolitical tensions will play a major role in the coming years.

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