

Arresting the Great Investment Slowdown

David Carbon
MD, Currency & Economic Research
July 10, 2015

Data sources: Data for all charts and tables are US-EIA, CEIC and Bloomberg. Estimates are by DBS Group Research.

Disclaimer: The information contained in this document is intended only for use during the presentation and should not be disseminated or distributed to parties outside the presentation. DBS Bank accepts no liability whatsoever with respect to the use of this document or its contents.



Contents

- Short-term outlook
 - Are rates going up? Not quickly, US still flat
 - Asia continues to grow at a 6.25% clip
- Cyclical vs structural – don't forget the big stuff!
- Asia: Arresting the Great Investment Slowdown
 - How do you turn it around?
 - Move to deficit from surplus
 - Mind sets need to change for this to occur

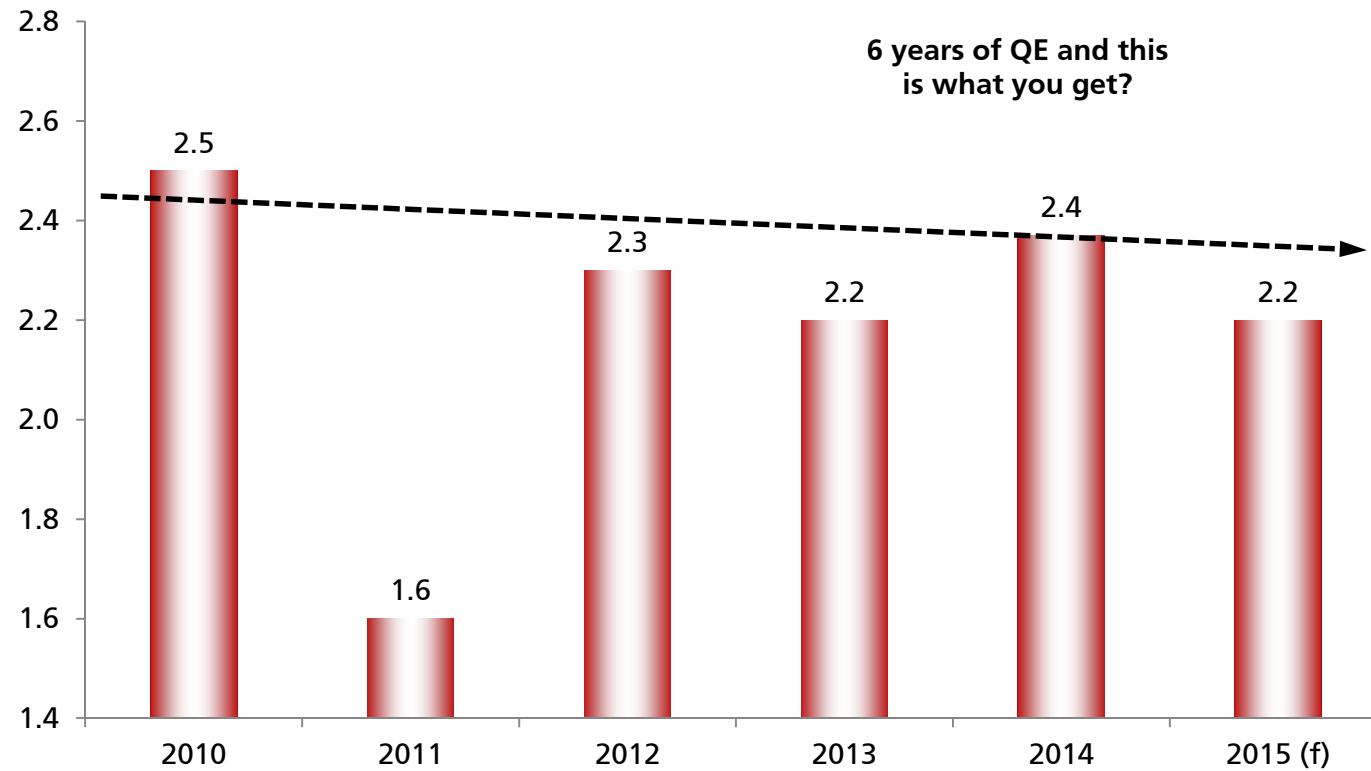
Are global rates going up?

- Not quickly, 100 basis points in 2016, maybe less
- US growth unchanged
- The question isn't whether the US is recovering. It is.
- The question is how much slack remains
 - A lot
 - Most officials 'want' to hike rates
 - But inflation is going down, not up
 - This reflects a lot of slack in the economy
 - If core PCE inflation continues to fall, the Fed will wait

US: growth unchanged

US – GDP growth

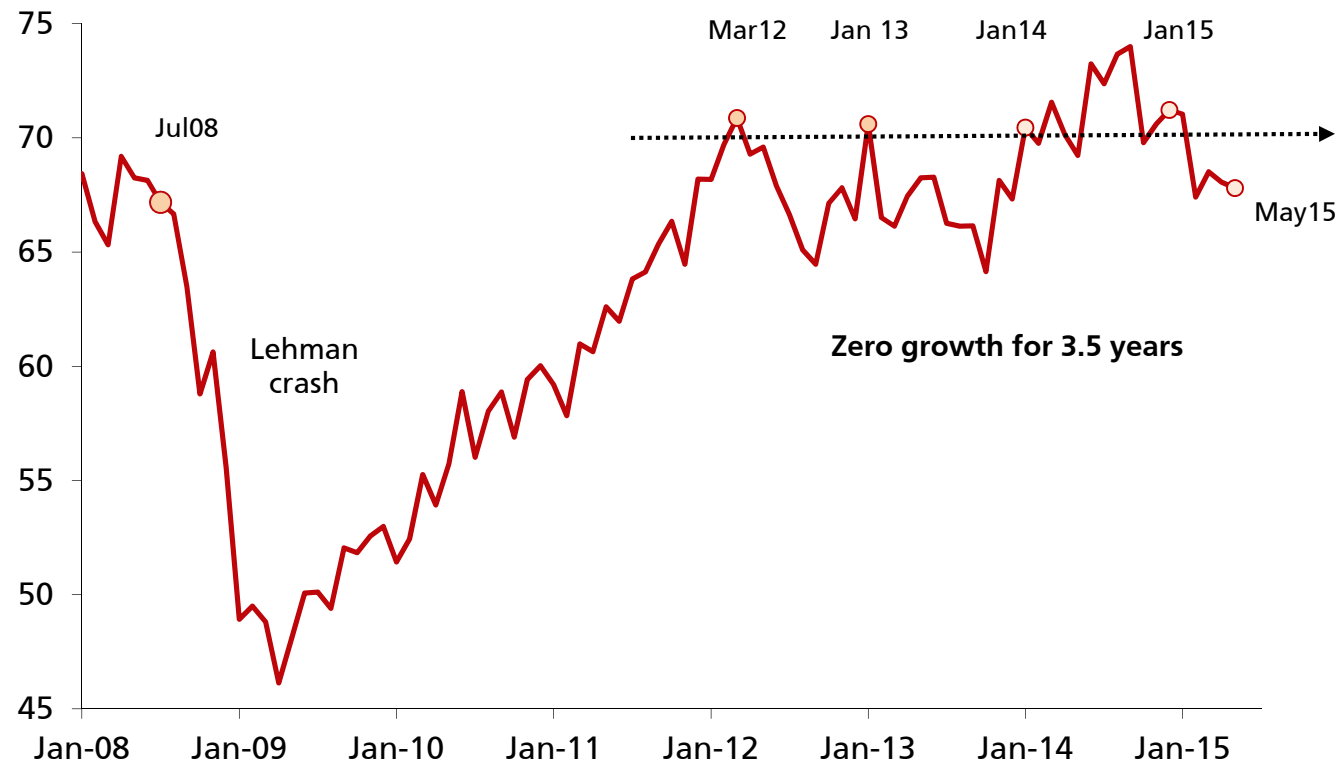
% full year growth



US: investment growth near zero

US – core capital goods orders

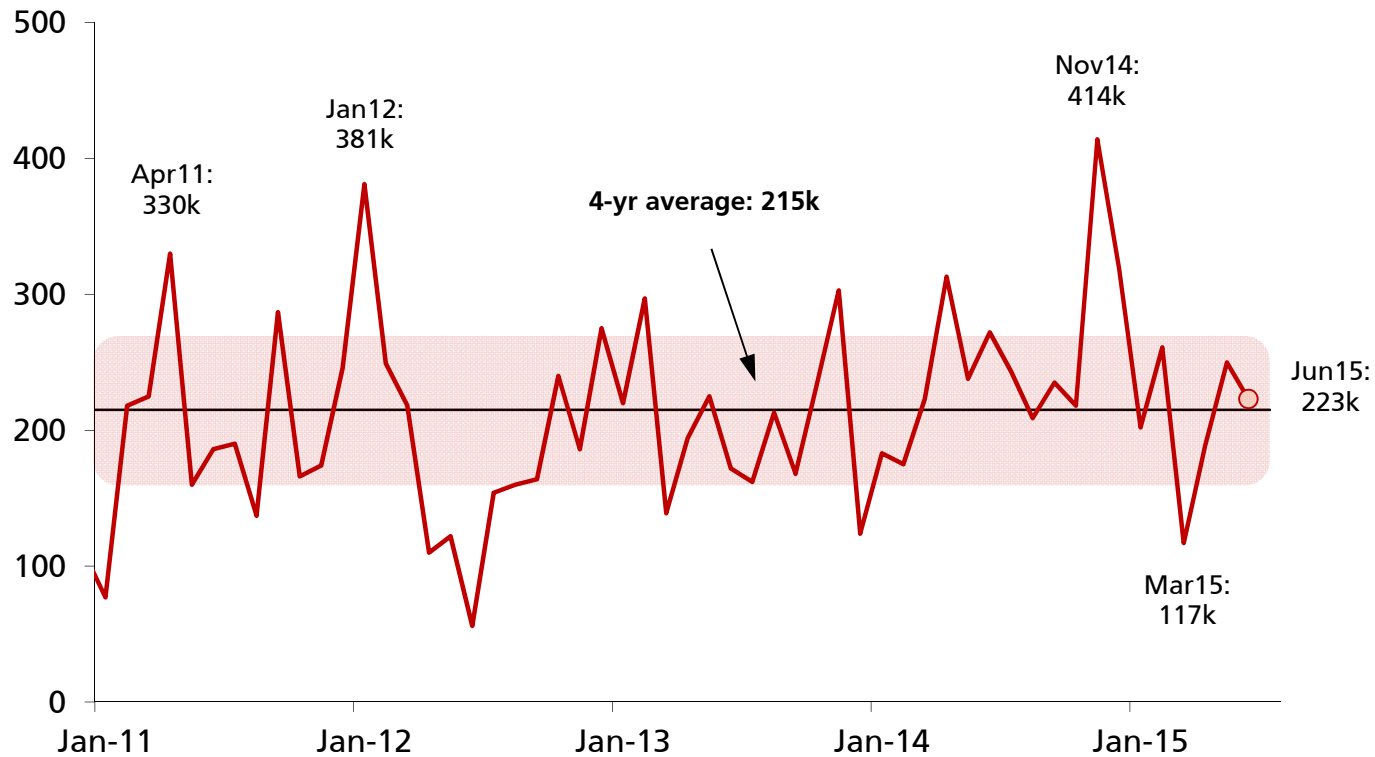
US\$bn/mth, seas adj, non-def K goods, ex-aircraft



US: job creation running sideways

US - private sector nonfarm payrolls

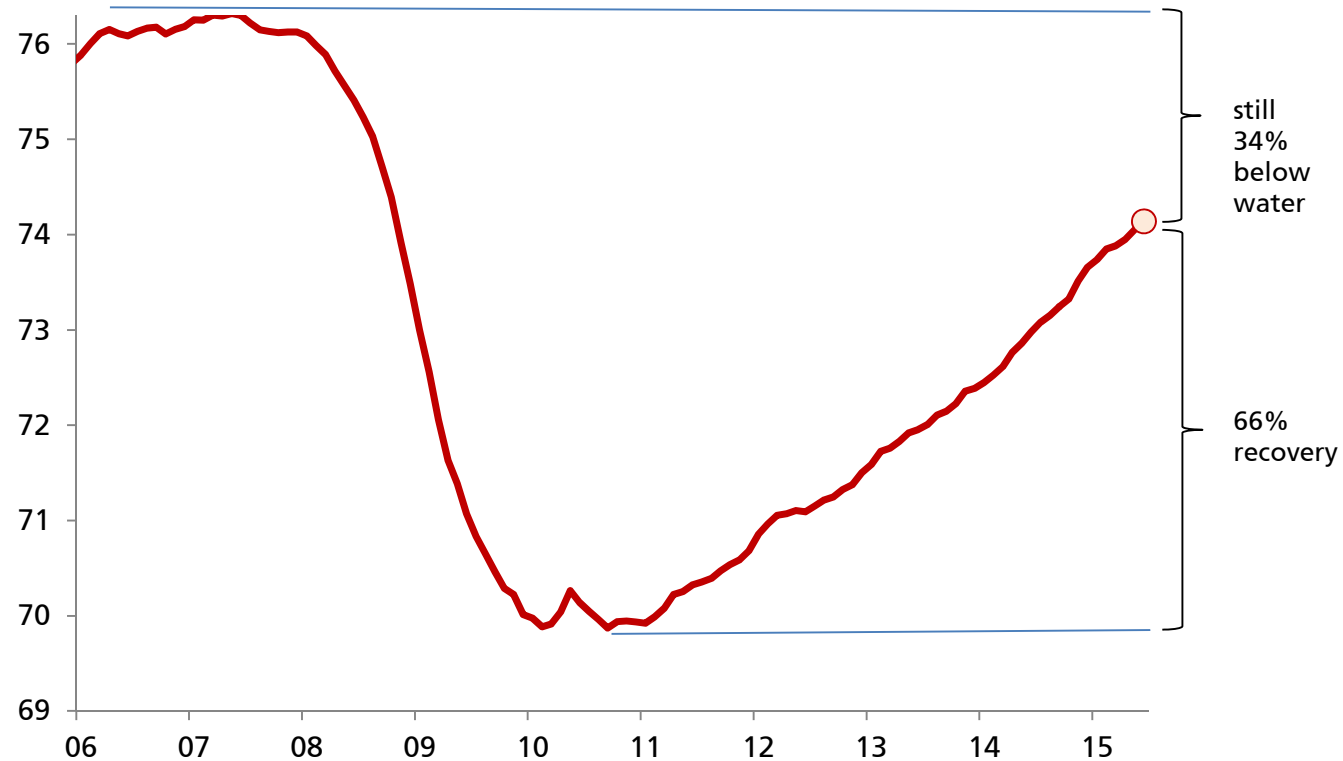
private sector NFP x1000, sa



US jobs: how much slack remains?

US – nonfarm payrolls as % of working age population

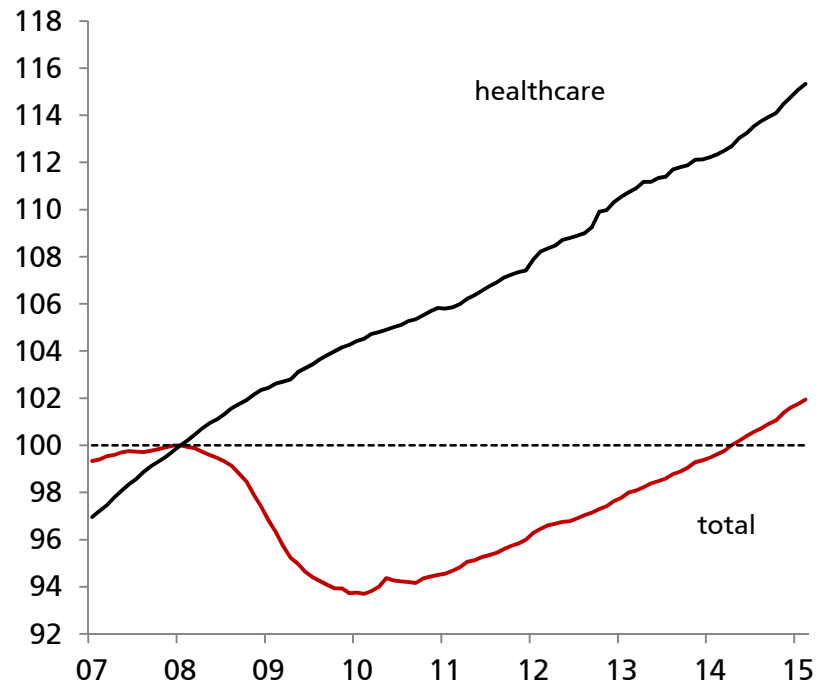
percent



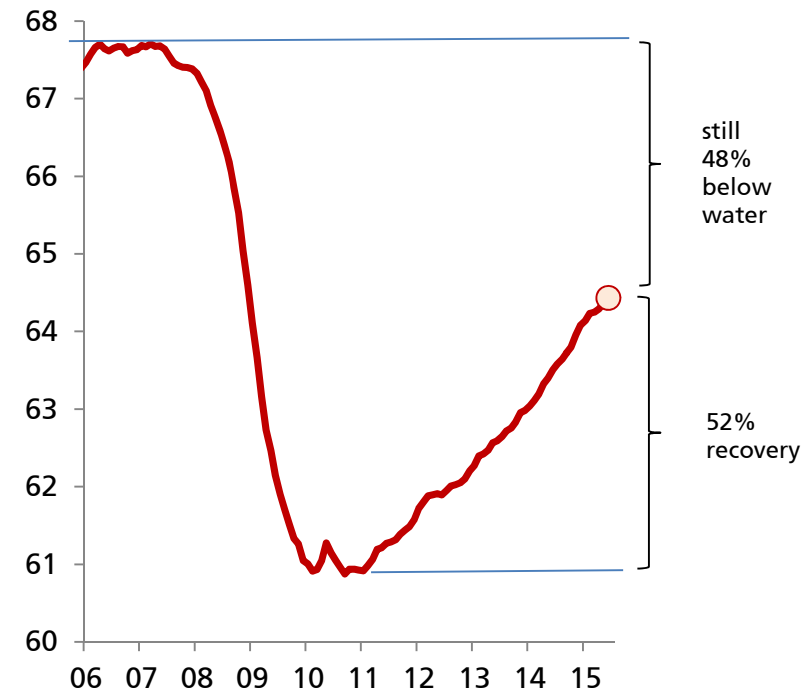
US jobs: healthcare is structural

US – nonfarm payrolls

Jan08=100, sa



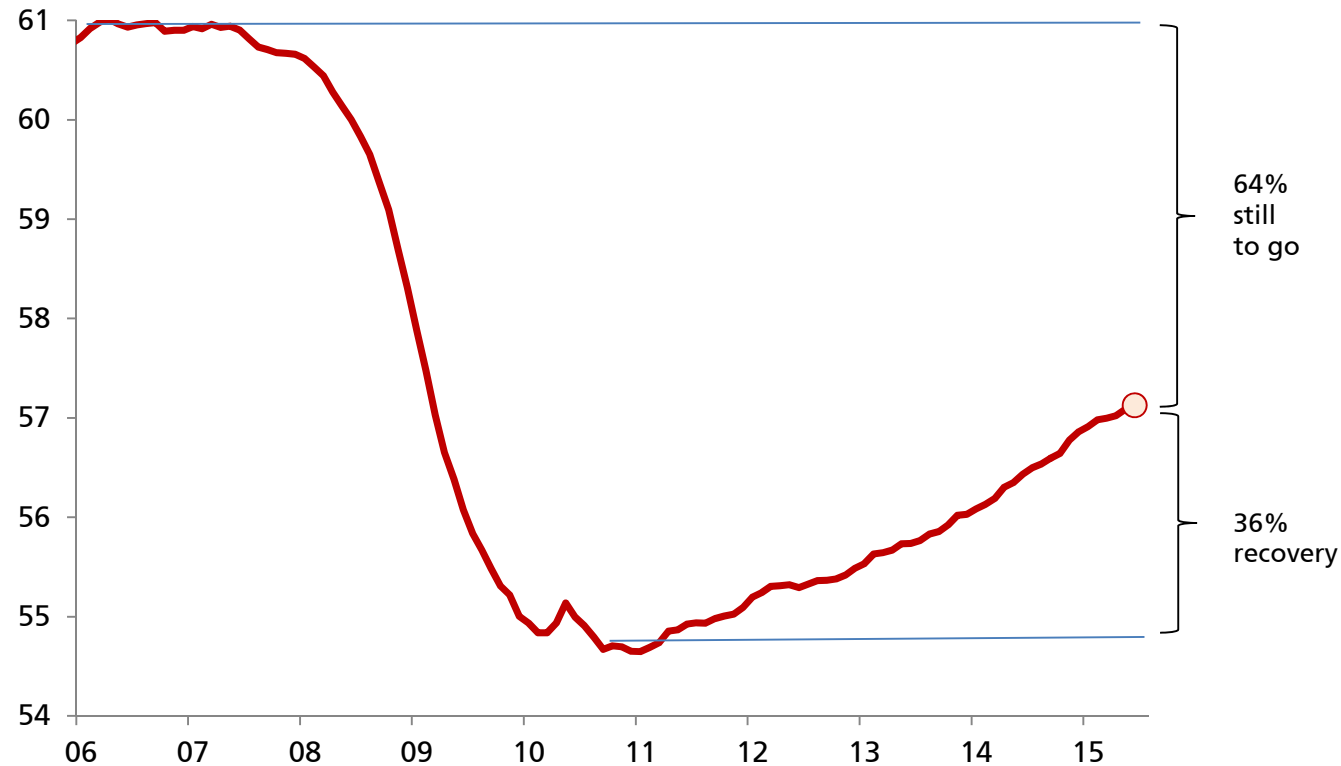
US – ex-healthcare NFP as % of working age pop'n
percent



US: are restaurants & part-time jobs real?

US – NFP as % of working age population

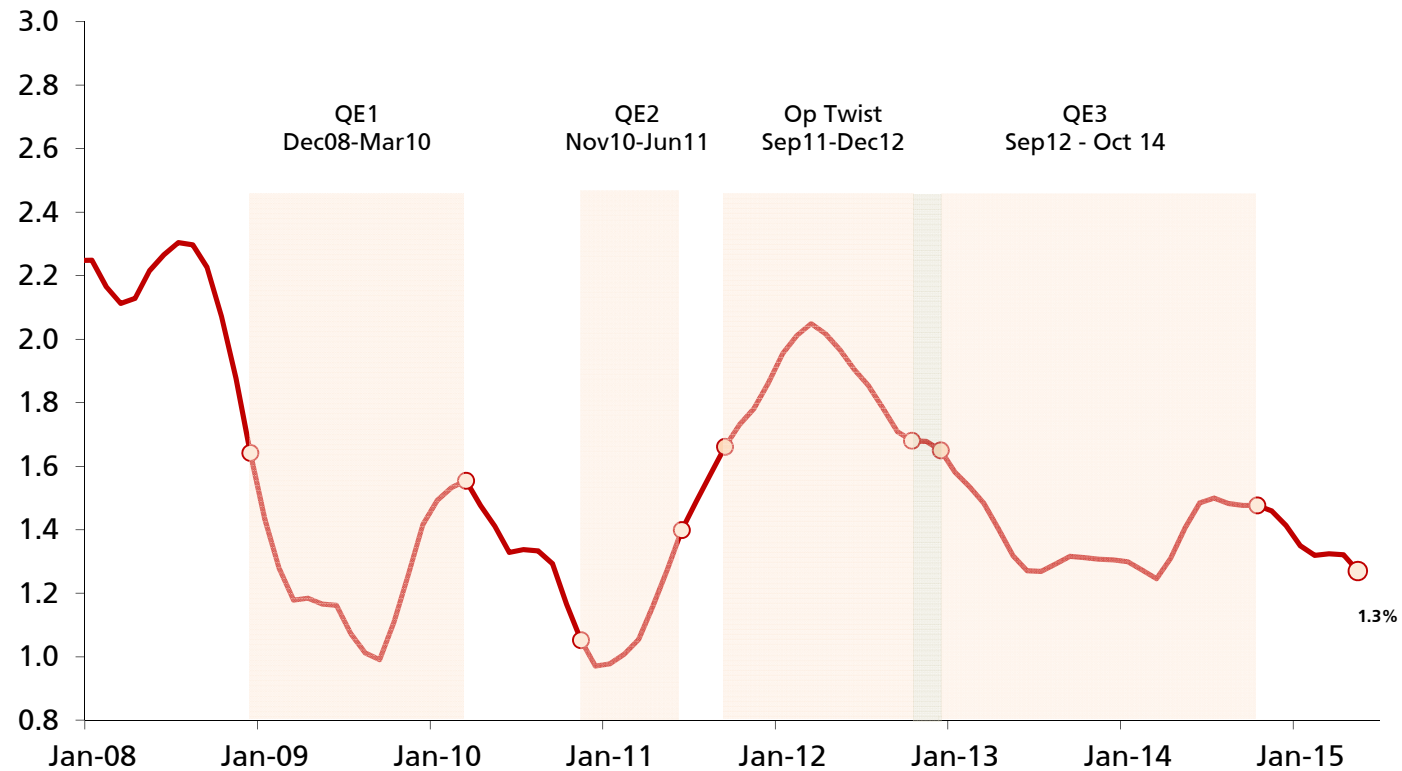
percent, ex-healthcare, restaurant, and part-time workers



US inflation: falling, not rising

US - core PCE inflation

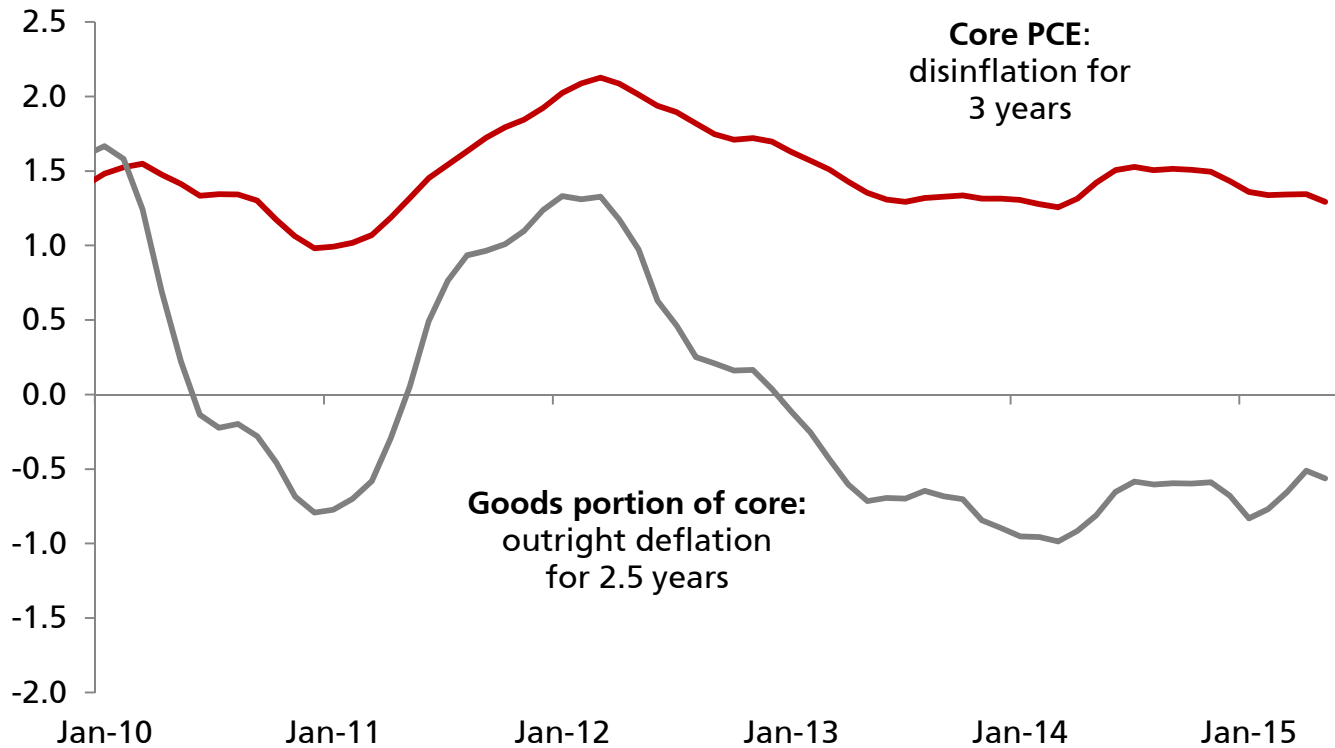
% YoY, 3mma, core PCE deflator



US: deflation for 1/5 of the economy

US – core PCE deflator inflation

%YoY, 3mma



US rates: what's the message?

- The Fed is going to go very slowly when it finally gets around to raising rates
- It may hike once or twice and stop

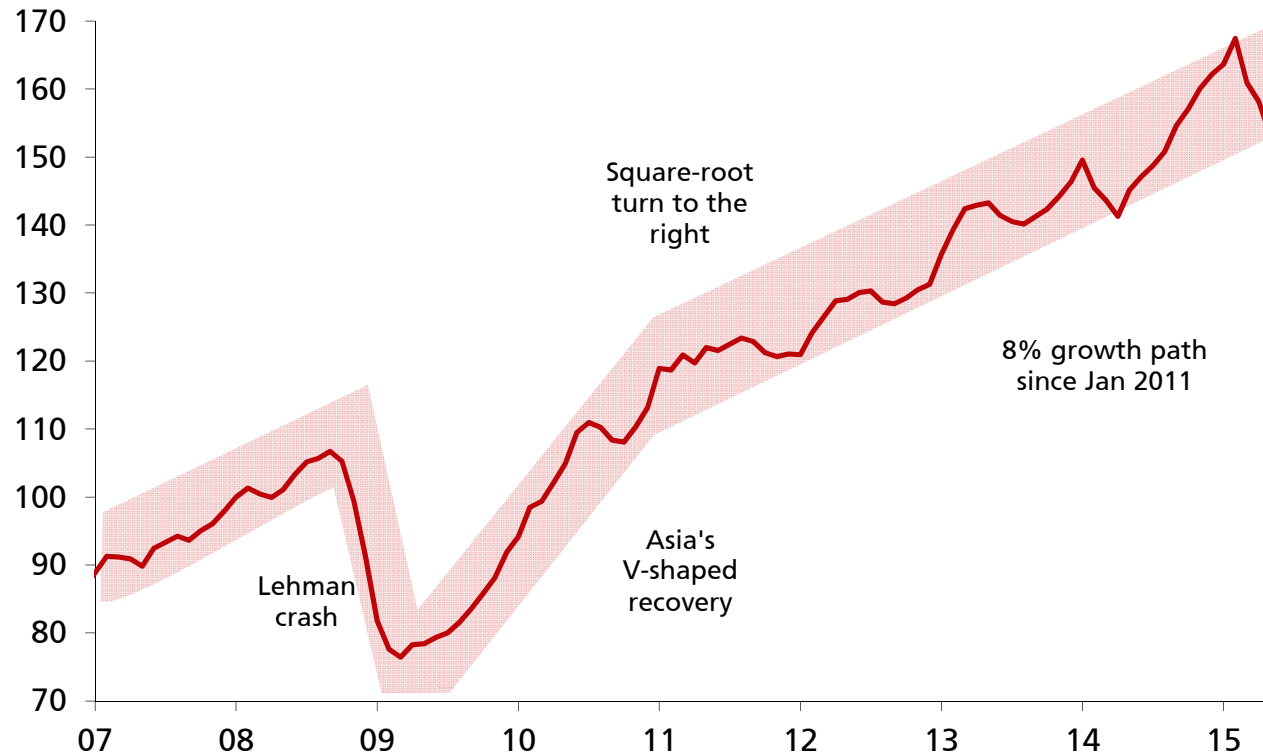
Asia

- 2015 growth forecasts
 - US: 2.2%
 - EU: 0.9%
 - JP: 1.2%
 - Asia: 6.25%
- Cyclical vs structural – don't forget the important stuff
- In dollar terms, Asia is now 2.5x the driver of global growth that the US is

Asia: steady growth (exports)

Asia 10 – exports

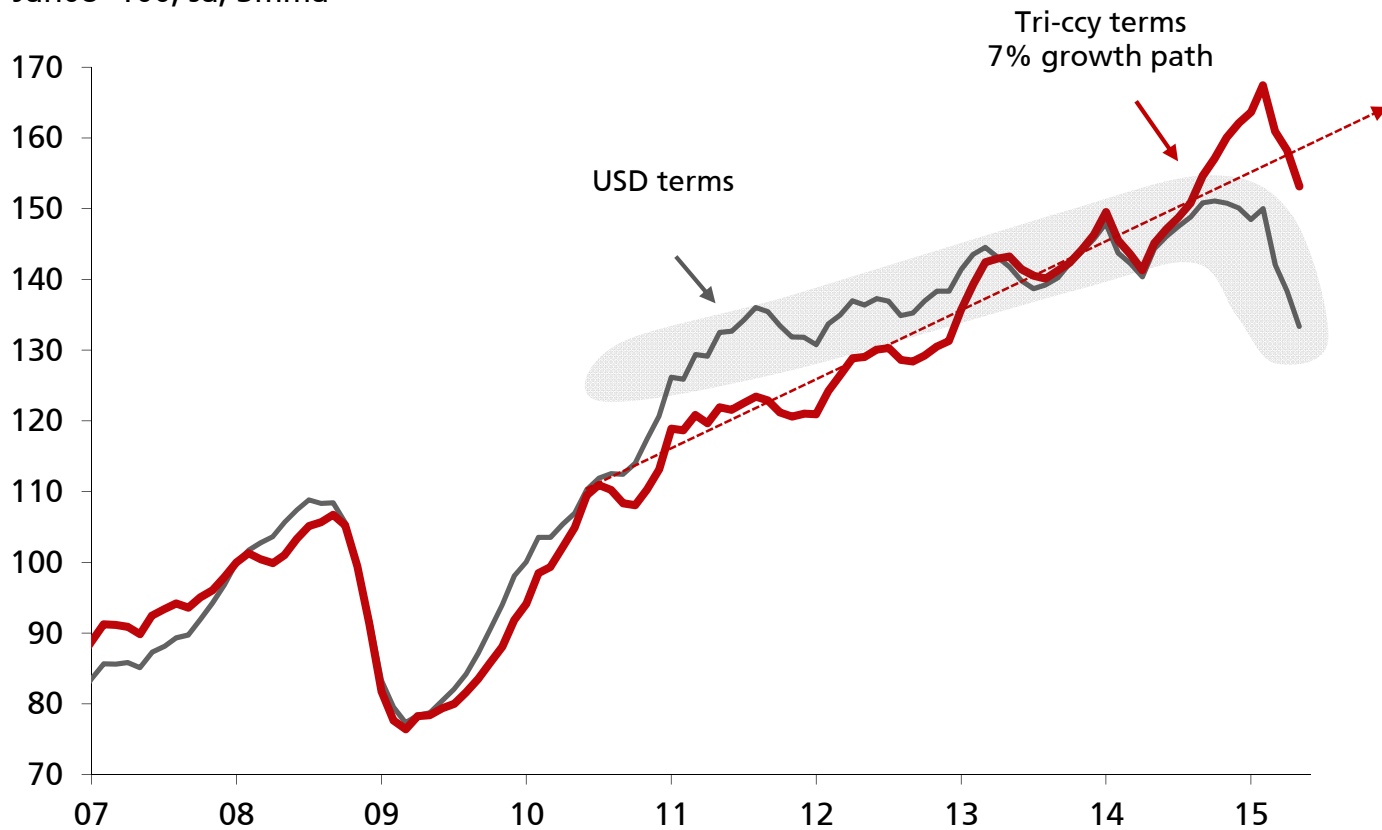
Jan08=100, sa, 3mma, avg USD, EUR and JPY terms



Asia exports: USD vs tri-ccy terms

Asia 10 – exports

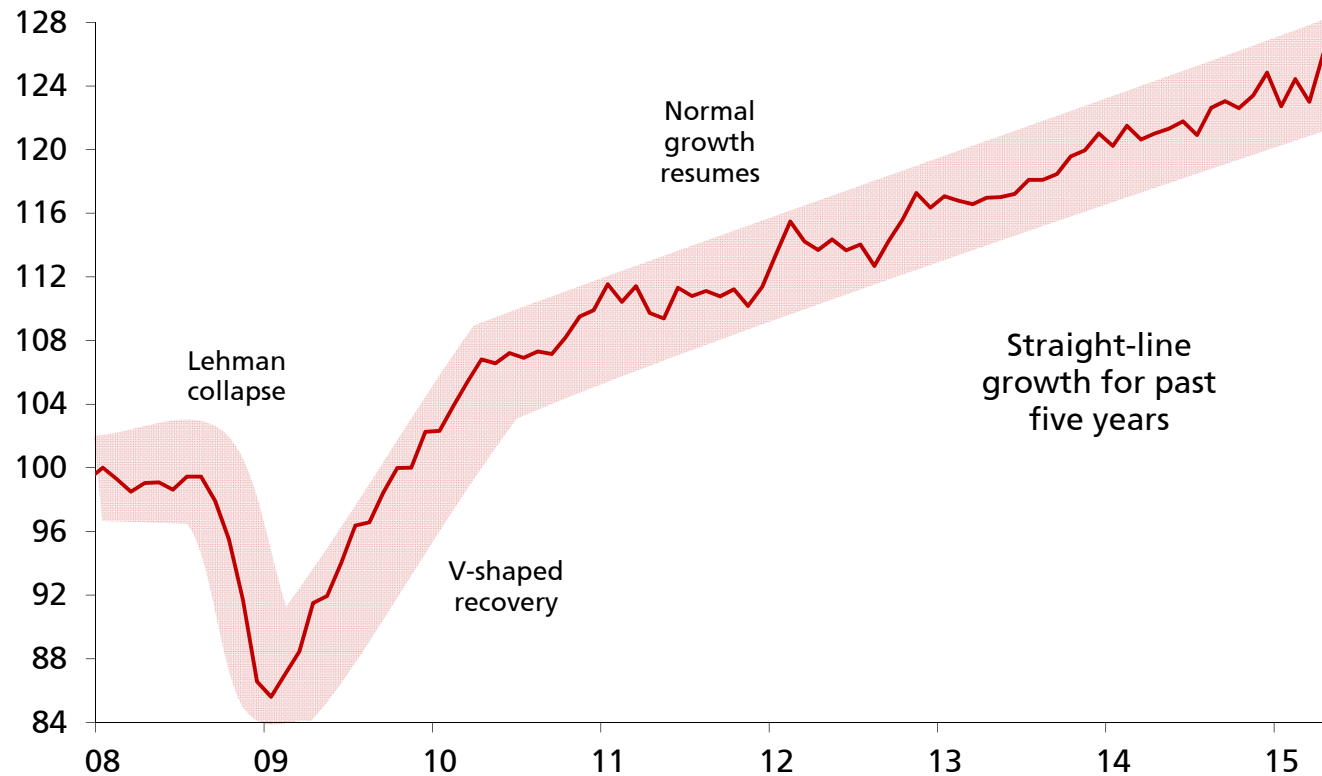
Jan08=100, sa, 3mma



Asia: steady growth (production)

Asia 10 - industrial production

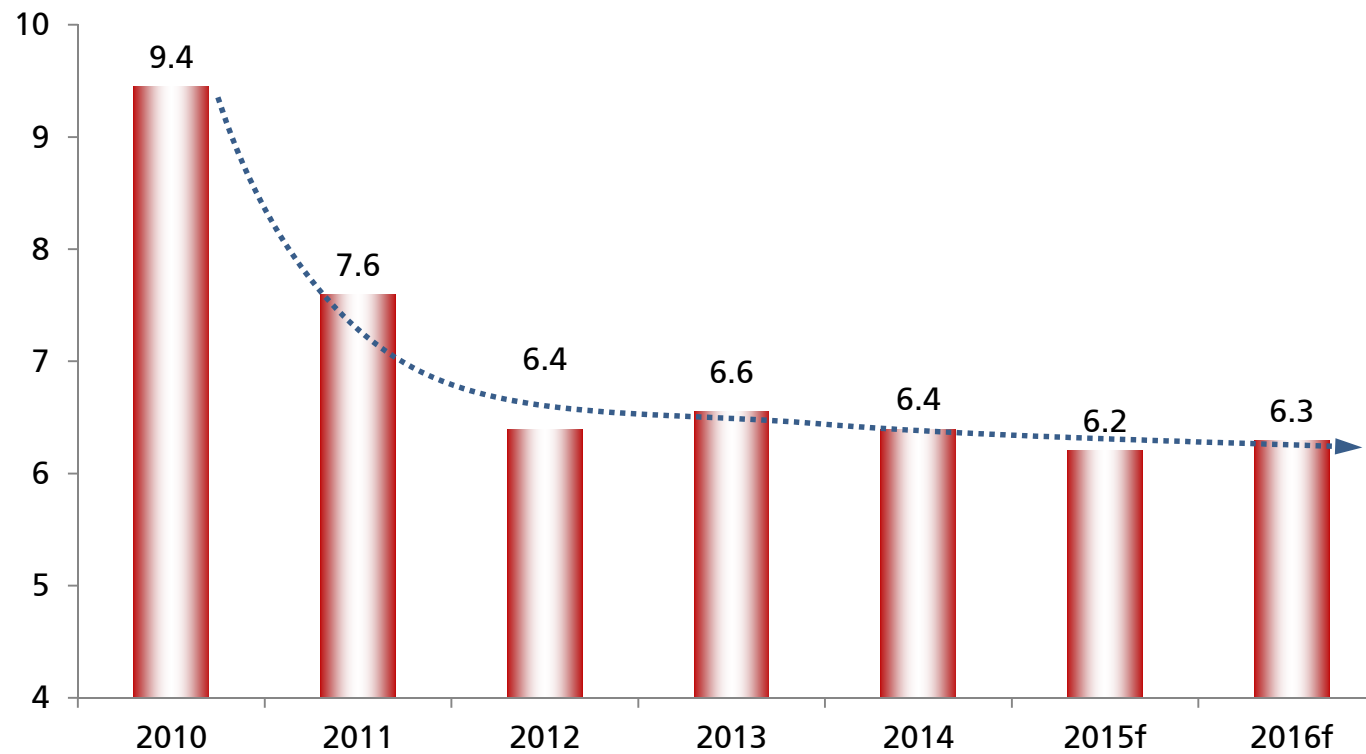
Jan08=100, seas adj



Asia: steady growth overall

Asia10 – GDP growth

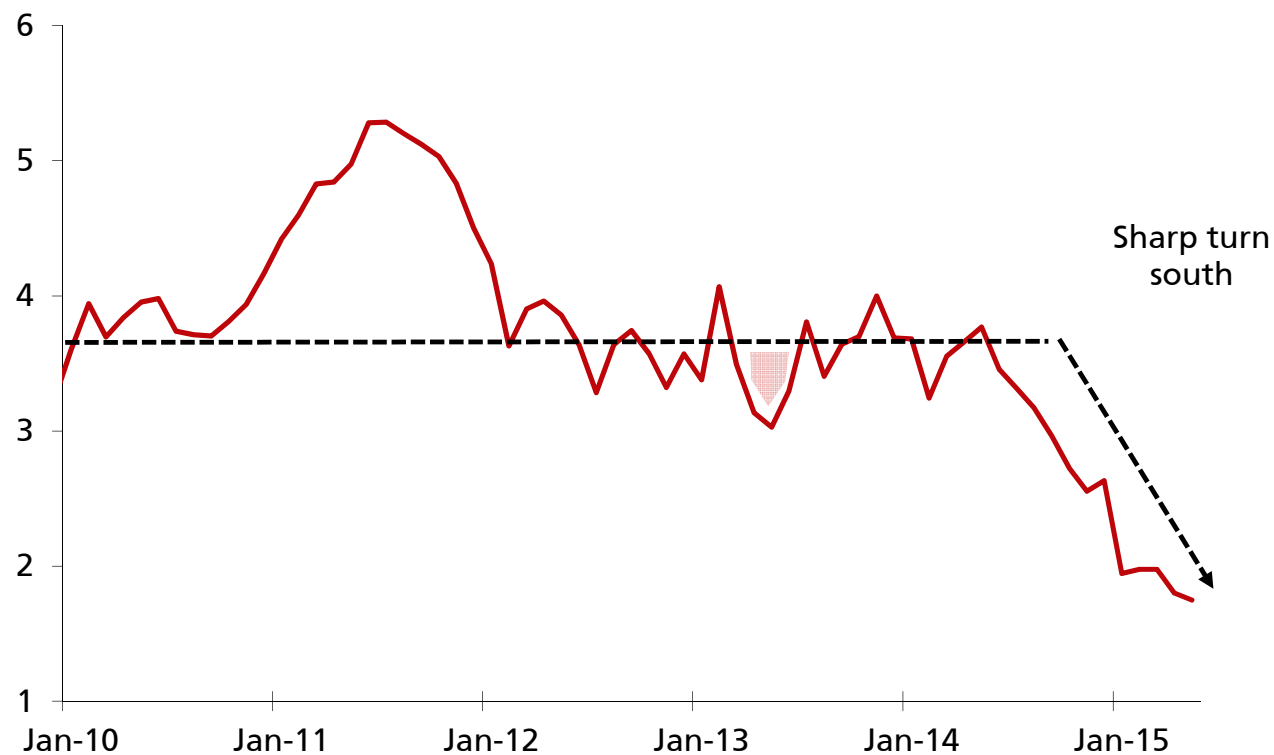
% YoY, wt avg



Growth is slow, inflation is falling fast

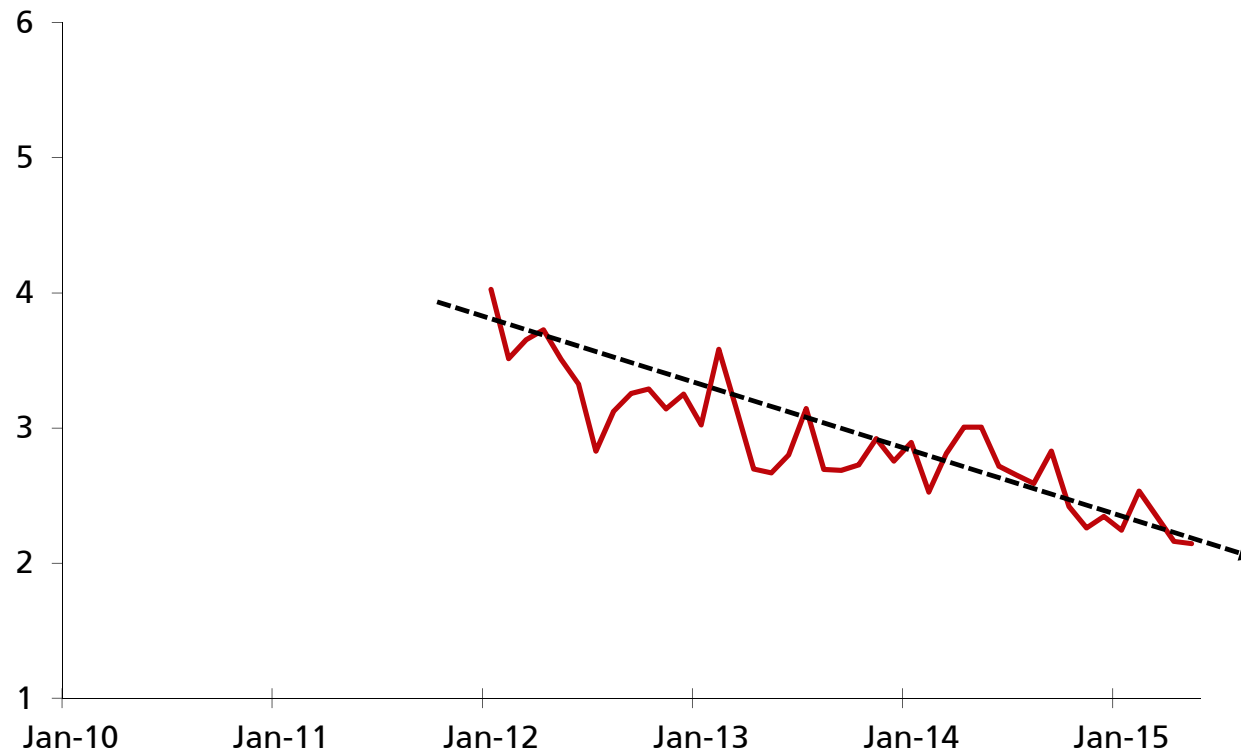
Asia10 – CPI inflation

% YoY, simple avg



Core inflation falling too. So dis-inflation isn't just about oil

Asia10 – core CPI inflation
% YoY, simple avg, (ex-food & energy)



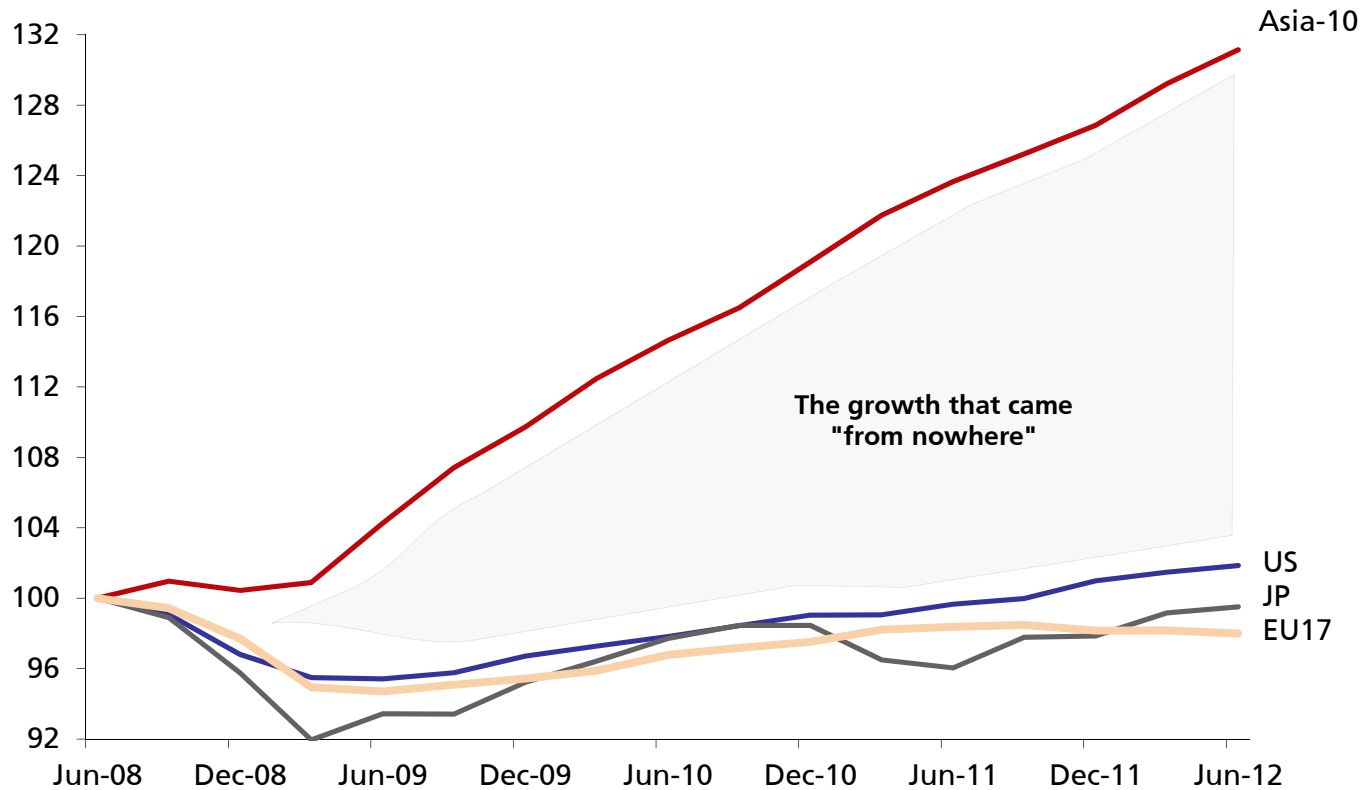
Asia: don't forget the big stuff!

- In dollar terms, Asia is now 2.5x the driver of global growth that the US is

Asia 'adds' a Germany every 3.5 years

Real global GDP

2Q08=100, seas adj



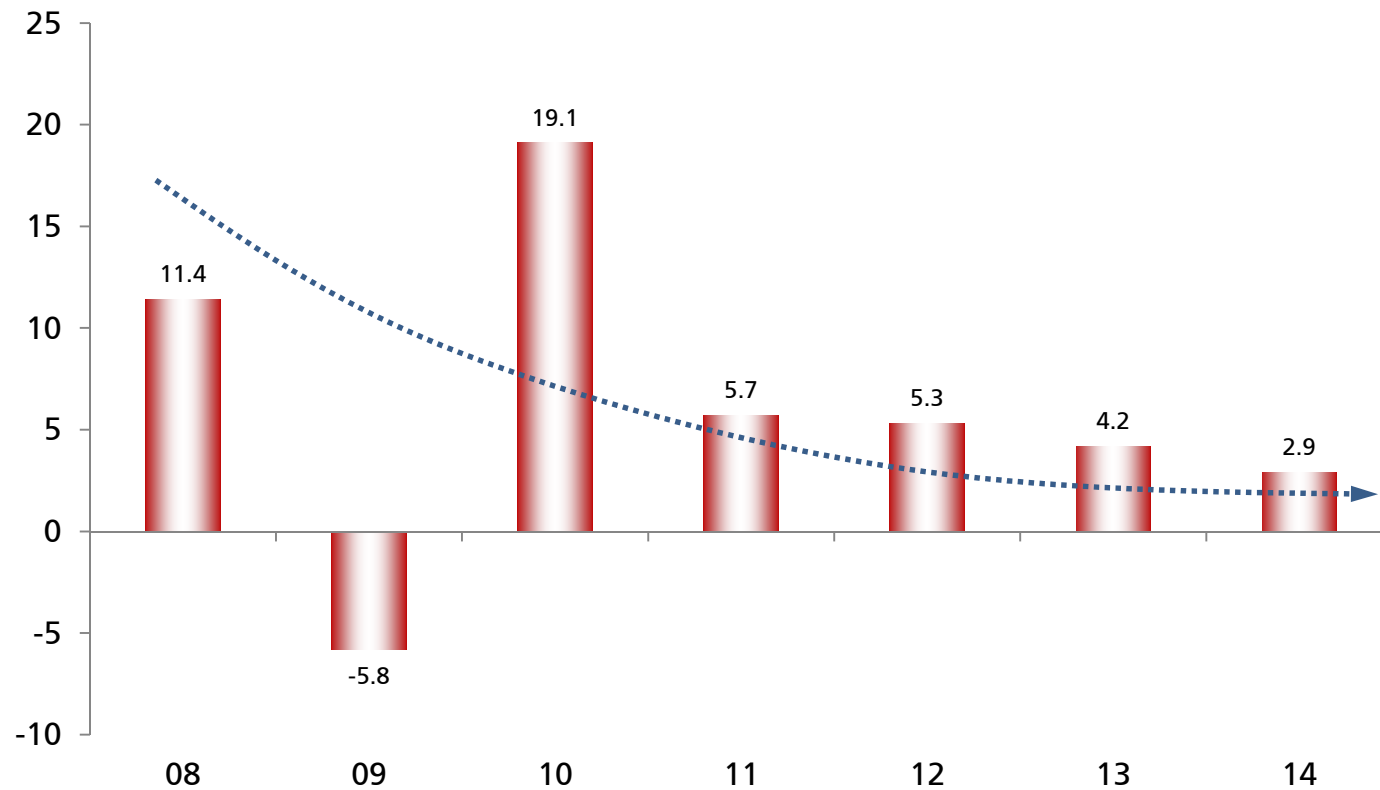
Asia: arresting the investment slowdown

- Asia's investment growth has slowed to a crawl
- Either things get turned around or the Asia growth story is over
- Some say it already is, "China has too much investment, not too little."
- Don't believe it – Singapore has saved / invested more than China for 50 yrs
- What to do?
- China's new AIIB? That won't do the trick
- Real problem: Asia's current account surpluses
- We need to get rid of the surpluses. But that will require a change in mind set

Asia: investment slowdown

Asia 10 – real investment growth

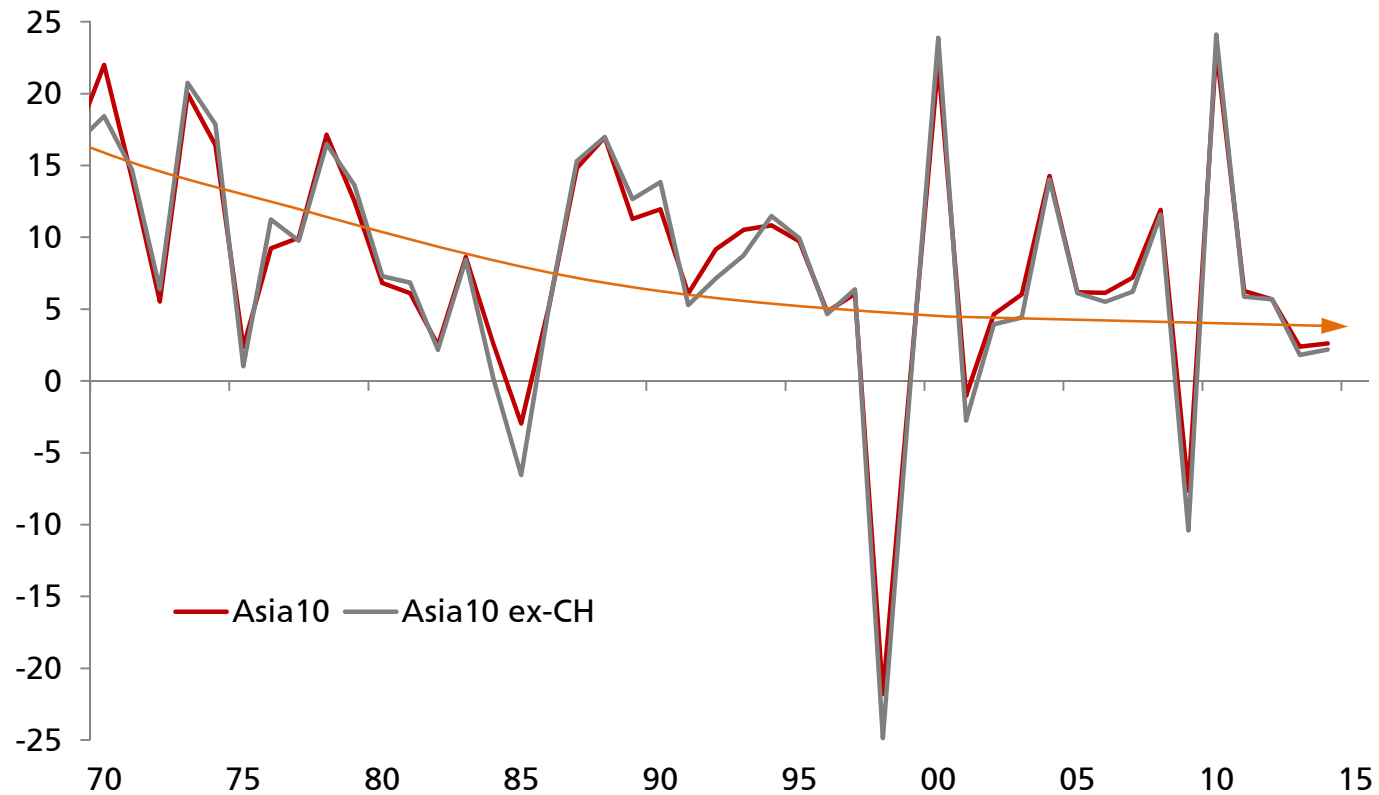
% YoY, simple avg



Asia: investment slowdown

Asia-10 – real investment growth

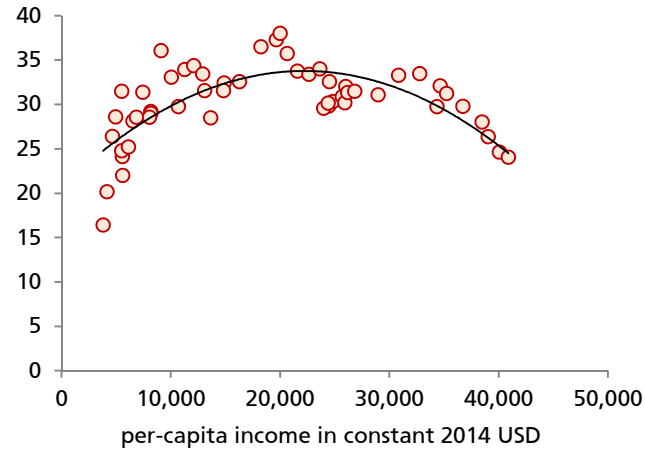
% YoY, Gross Fixed Capital Formation, simple avg



Asia: investment slowdown

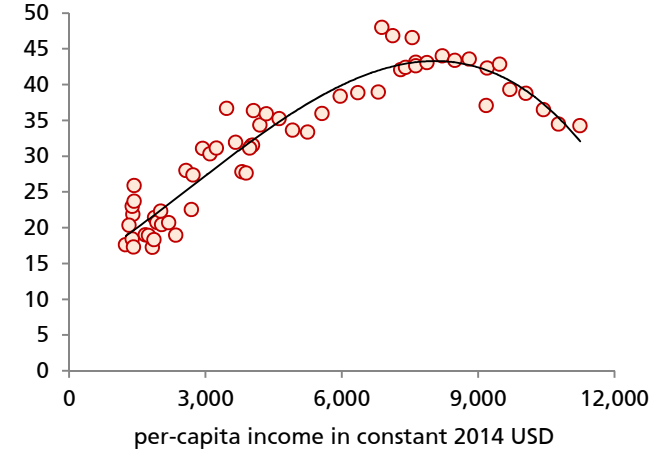
Hong Kong – saving / GDP and per-capita income

Saving / GDP (%)



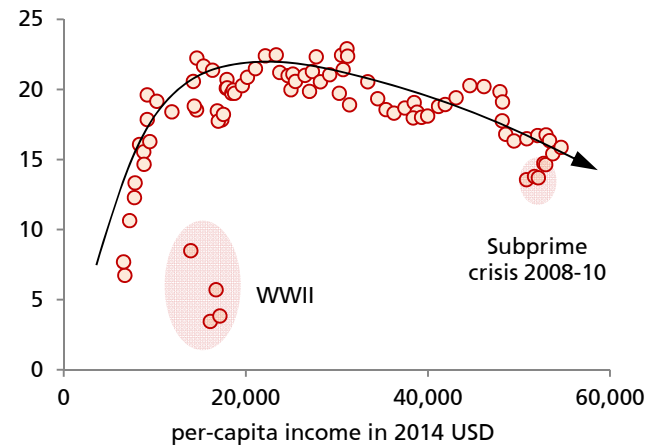
Malaysia – saving / GDP and per-capita income

Saving / GDP (%)



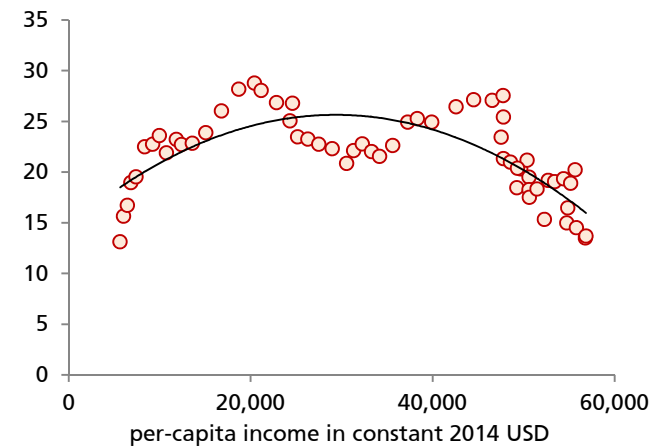
US – saving / GDP and income (1929-2014)

Saving / GDP (%)



Japan – saving / GDP and per-capita income

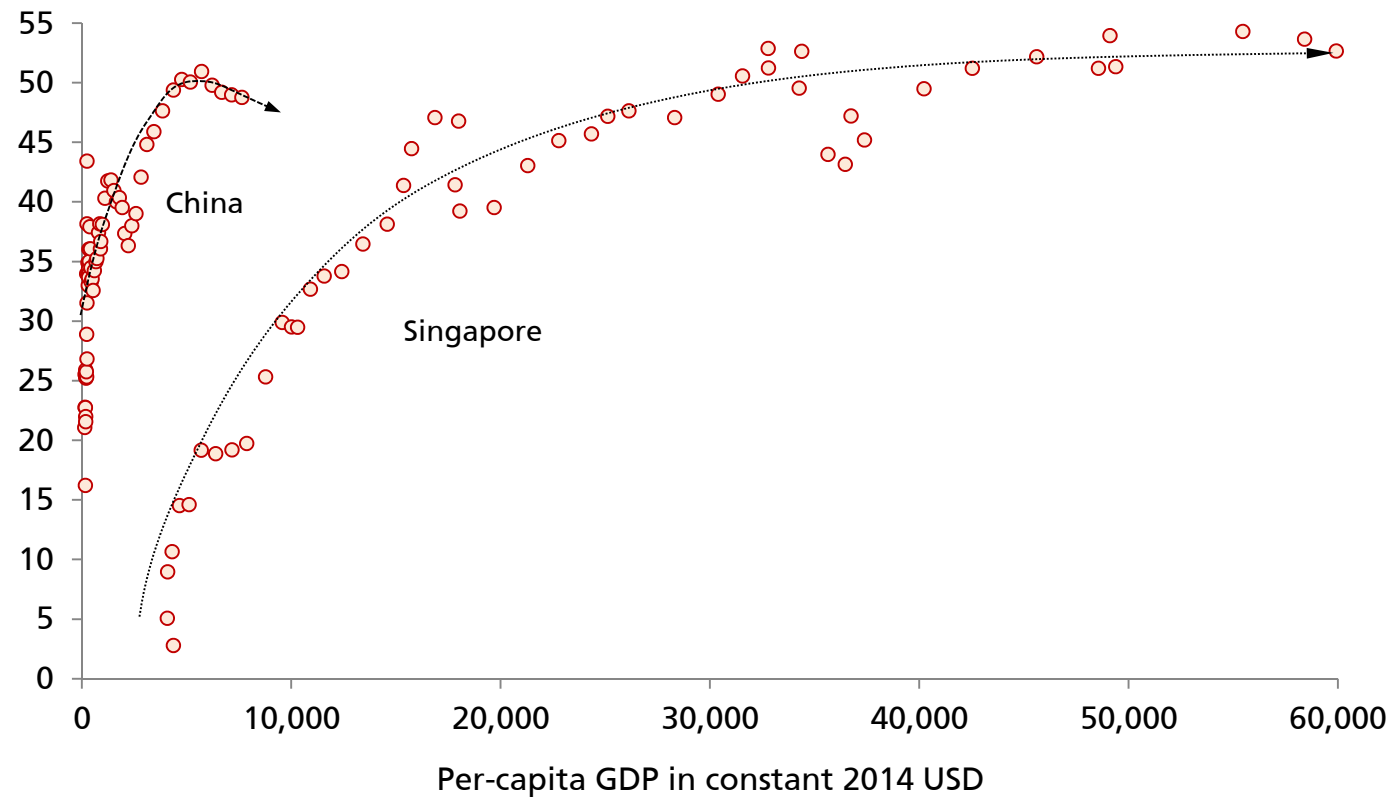
Saving / GDP (%)



China and Singapore

China and Singapore – saving / GDP and per-capita income

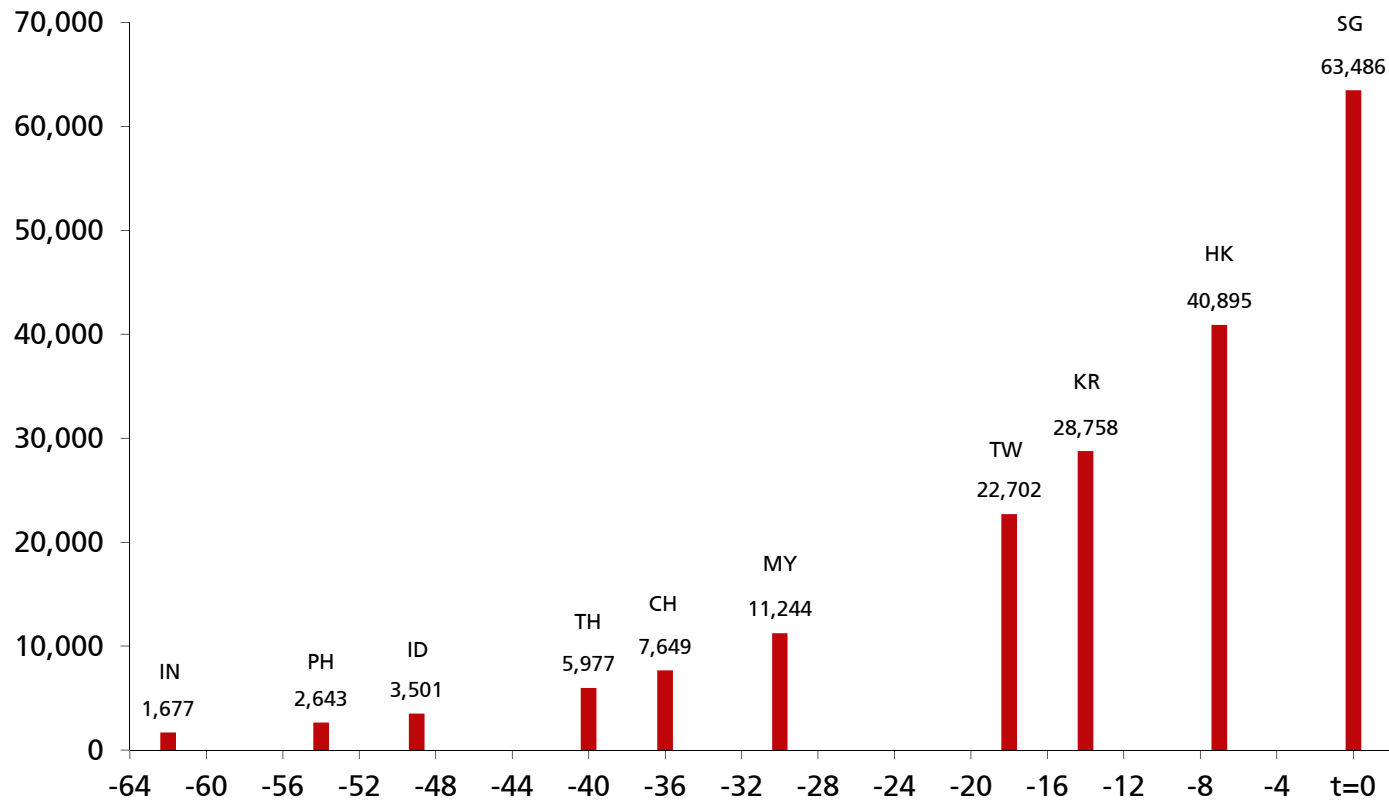
Saving / GDP (%)



Asia: per-capita income timeline

Asia – per capita GDP timeline

USD per person in 2014 and years required to reach Singapore pci (assuming 6% pci growth rate)



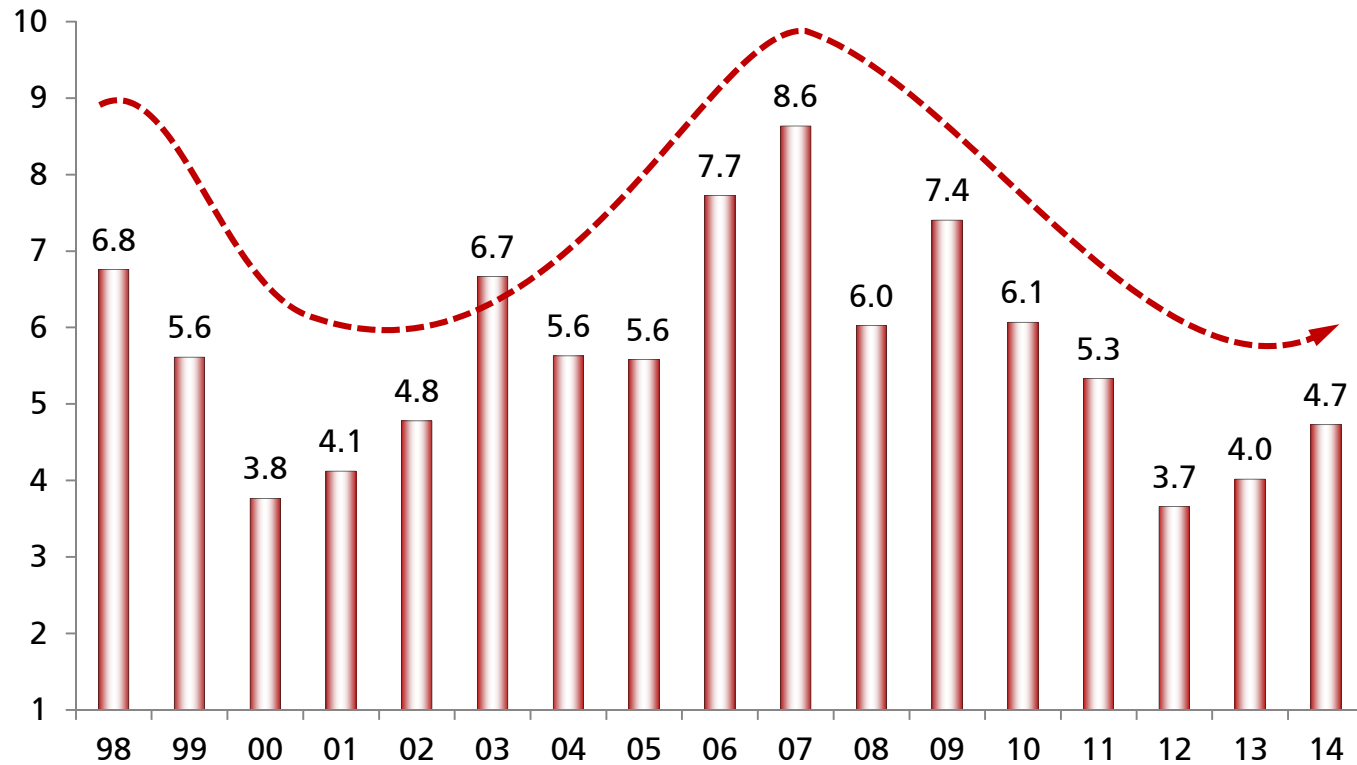
Asia: what to do?

- China's AIIB? No
 - Target of US\$100bn
 - Asia's investment in 2014 was \$6700bn
 - Disburse all funds in 3 years, might raise Asia's investment by 0.4% over what will already occur
 - That's not nothing but it may as well be
- The real problem is not a lack of funds
- The real problem is too many funds
- All of Asia (except ID, IN) runs current account surpluses
- That means you're lending to the rest of the world
- If you're lending, you don't need to borrow from an AIIB
- If you're lending, you don't need to borrow from *anyone*

Asia: current account surpluses

Asia 10 – current account surplus

% of GDP, simple average



What's the answer?

- Stop lending, start borrowing
 - Stop running surpluses, start running deficits
 - Stop investing in US Treasuries, start investing at home
-
- **AAARGH!!! Deficits?**
 - **That's Heresy!!**
 - Foreign investors, rating agencies, local officials would all object

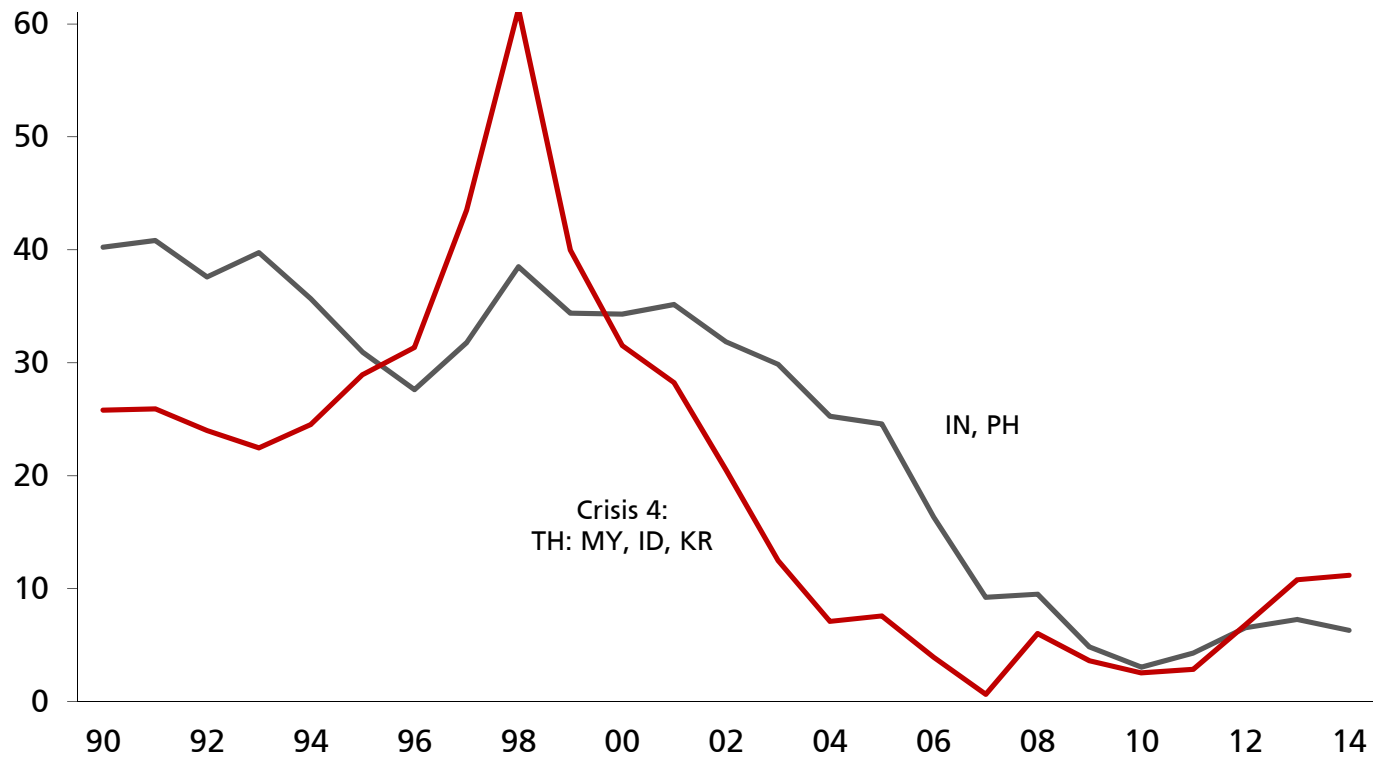
It's not Heresy, it's Finance 101

- Rich, capital abundant countries are supposed to lend to poor, capital scarce countries, not vice-versa
- Lenders get a higher return (than available at home)
- Borrowers can invest more than own savings will allow
 - Faster GDP growth
 - Faster income growth
- Everyone wins

Asia: net foreign debt

Asia – net foreign debt as % of GDP

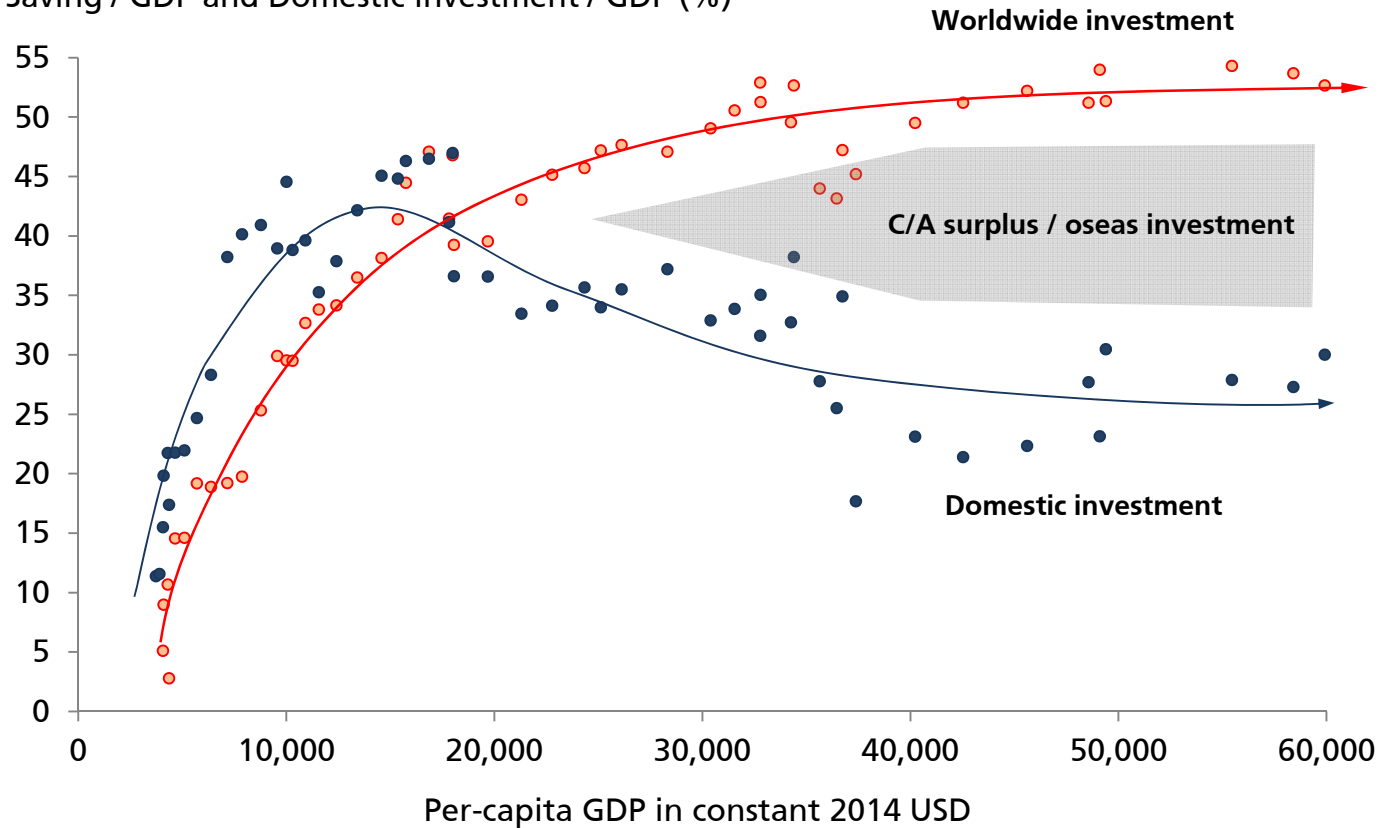
ext debt (public + priv) less FX reserves as % of GDP



Singapore: investing abroad, not at home

Singapore – saving/GDP and dom investment /GDP and per-capita income

Saving / GDP and Domestic investment / GDP (%)



Summary

- Rate rises will be slow, “a crawl” (Fischer)
- Asia’s growth remains steady but investment falling sharply
- Arresting the Great Investment Slowdown
 - Investment has fallen below 3%
 - This won’t sustain GDP growth needed to raise incomes and employ populations
 - The AIIB won’t change that.
 - Asia’s current account surpluses are standing in the way of greater domestic investment
 - A swing to modest deficit could lift domestic investment by 8-9 percentage points of GDP – a huge amount
 - But mindsets have to change for this to occur
 - Until the change in mindset occurs, no amount of funding from an AIIB or other institution will lift domestic investment in the region

Appendix

Asia: GDP and inflation forecasts

	GDP growth, % YoY				CPI inflation, % YoY			
	2013	2014	2015f	2016f	2013	2014	2015f	2016f
US	2.2	2.4	2.2	2.5	1.5	1.6	0.9	1.7
Japan	1.6	-0.1	1.1	1.0	0.4	2.7	1.0	0.8
Eurozone	-0.4	0.9	1.0	1.3	1.3	0.4	0.4	1.1
Indonesia	5.6	5.0	5.1	5.5	6.4	6.4	6.4	5.7
Malaysia	4.7	6.0	4.9	5.0	2.1	3.1	2.1	3.0
Philippines	7.1	6.1	6.0	6.2	2.9	4.2	2.5	3.7
Singapore	4.4	2.9	3.2	3.5	2.4	1.0	-0.1	1.3
Thailand	2.8	0.9	3.2	4.5	2.2	1.9	-0.2	2.0
Vietnam	5.4	6.0	6.0	6.2	6.6	4.1	1.3	3.5
China	7.7	7.4	7.0	6.8	2.6	2.0	1.8	2.2
Hong Kong	2.9	2.3	2.5	3.0	4.3	4.4	3.2	3.0
Taiwan	2.2	3.8	3.4	3.5	0.8	1.2	-0.2	1.2
Korea	2.9	3.3	3.0	3.5	1.3	1.3	0.8	2.1
India*	6.9	7.3	7.6	8.3	9.5	6.0	5.6	5.9
Asia 10	6.6	6.4	6.2	6.3	3.5	2.7	2.3	2.8
Asia ex-China	4.8	4.9	5.0	5.5	4.9	3.9	3.2	3.8
Asia ex-CH, IN	3.9	3.8	3.8	4.3	2.8	2.9	2.1	2.9
G3	1.0	1.3	1.5	1.7	1.2	1.3	0.7	

* India data & forecasts refer to fiscal years beginning April; prior to 2013.

Source: CEIC and DBS Research

Asia: inflation low and falling fast

Asia - CPI inflation

% YoY

	Headline					Food					Core (ex-food & energy)				
	May 15	one yr ago	20 yr avg	Curr less	Curr over	May 15	one yr ago	20 yr avg	Curr less	Curr over	May 15	ago	20 yr avg [^]	Curr less	Curr over
				20 yr avg	20 yr avg				20 yr avg	20 yr avg				20 yr avg	% pts
Indon	7.1	7.3	10.6	-3.5	0.7	7.9	6.6	13.5	-5.6	0.6	5.0	4.8	5.9	-0.8	0.9
India	4.9	8.3	7.5	-2.6	0.7	5.4	8.9	7.7	-2.3	0.7	5.4	8.5	8.3	-2.9	0.6
HK	2.8	3.7	1.9	0.9	1.5	3.2	4.1	2.6	0.6	1.2	1.9	3.4	1.5	0.4	1.3
Malay	1.8	3.2	2.6	-0.7	0.7	3.0	3.4	3.8	-0.7	0.8	2.7	2.2	1.9	0.8	1.4
Phils	1.6	4.5	5.0	-3.4	0.3	3.2	6.7	5.2	-2.0	0.6	2.2	3.1	4.1	-2.0	0.5
China	1.2	2.5	3.1	-1.9	0.4	1.6	4.1	4.9	-3.3	0.3	1.6	1.7	1.0	0.6	1.6
Korea	0.5	1.7	3.3	-2.7	0.2	2.2	0.7	4.4	-2.1	0.5	2.1	2.2	2.9	-0.8	0.7
Spore	-0.5	2.3	1.8	-2.3	-0.3	2.1	3.2	1.9	0.1	1.1	-0.7	2.0	1.5	-2.2	-0.4
Twan	-0.7	1.6	1.3	-2.0	-0.6	0.9	4.3	2.2	-1.3	0.4	0.3	0.5	0.8	-0.5	0.4
Thai	-1.3	2.6	3.2	-4.5	-0.4	0.1	4.4	4.8	-4.7	0.0	0.9	1.7	2.1	-1.2	0.4
Viet	1.0	4.7	#N/A	#N/A	#N/A	2.2	4.5	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Asia 10	1.7	3.8	4.0	-2.3	0.4	3.0	4.6	5.1	-2.1	0.6	2.1	3.0	3.0	-0.9	0.7

[^] Data exist 9 yrs for CH, 12 yrs for ID, 14 yrs for PH, 3 yrs for IN

Disclaimer

Disclaimer:

The information herein is published by DBS Bank Ltd (the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation.