



Outlook 2010

How resilient is economic recovery ?

10 December 2009

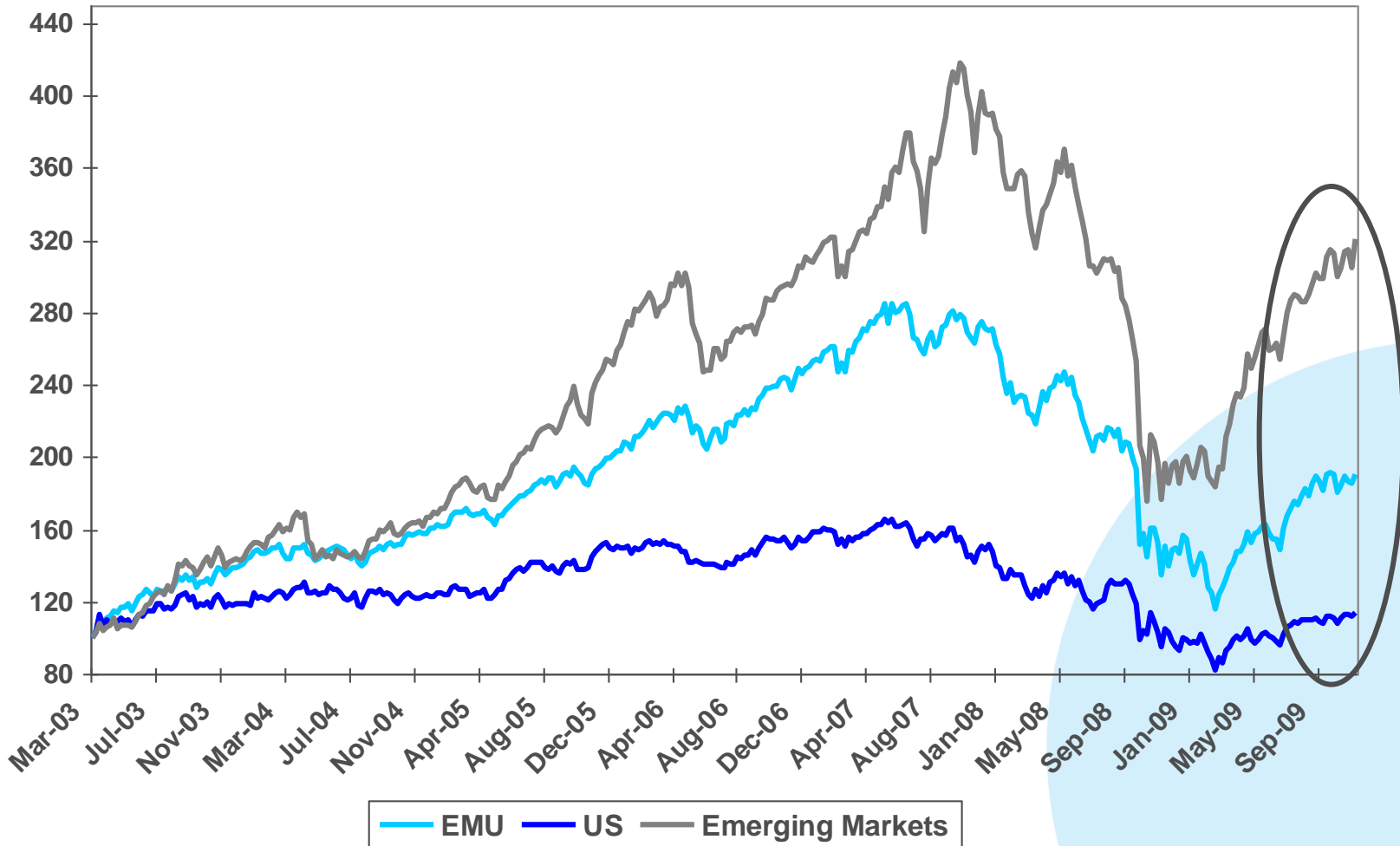
Edwin De Boeck
Chief Economist KBC Group



Equity markets

Upward momentum stalling

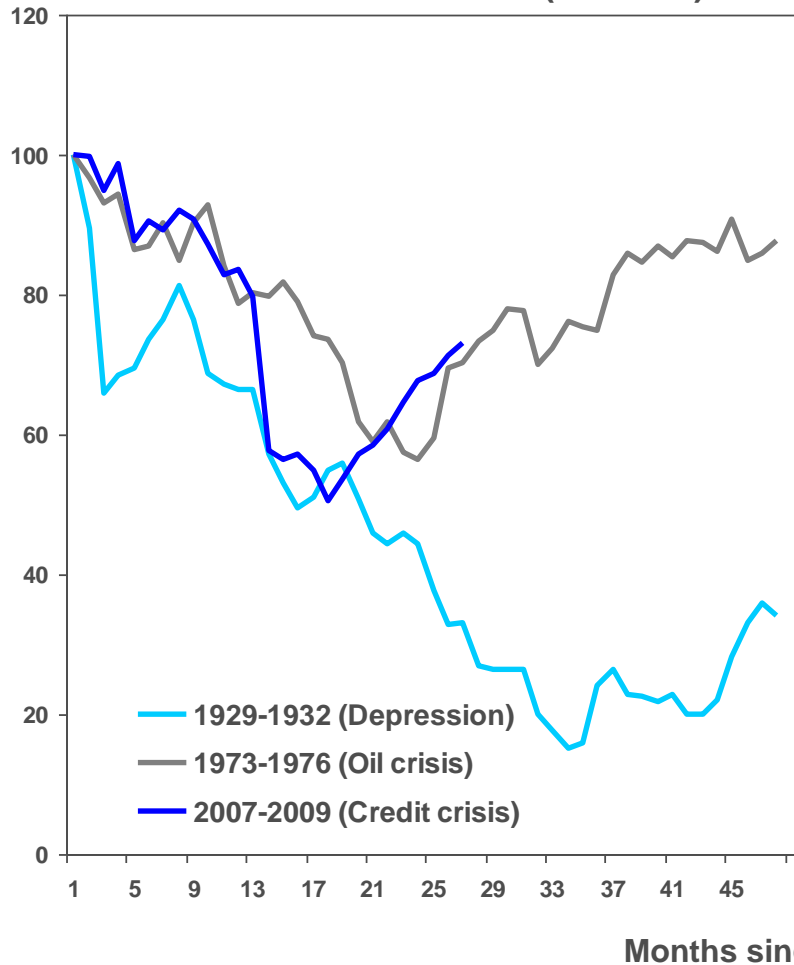
Totale return in EUR (MSCI, March = 100)



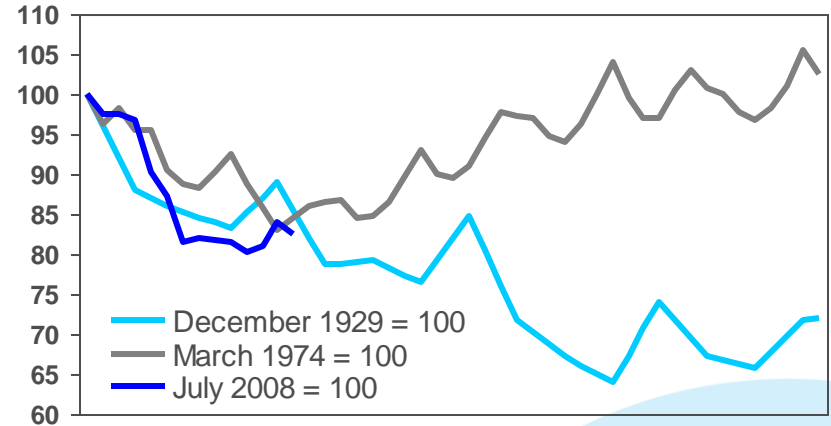
Equity markets

Depression fears have faded

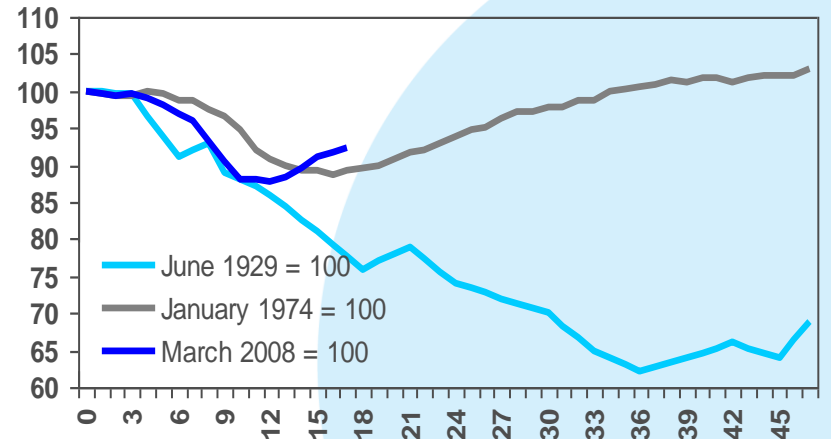
Comparison with previous stock market crashes (S&P500)



World trade (volume)



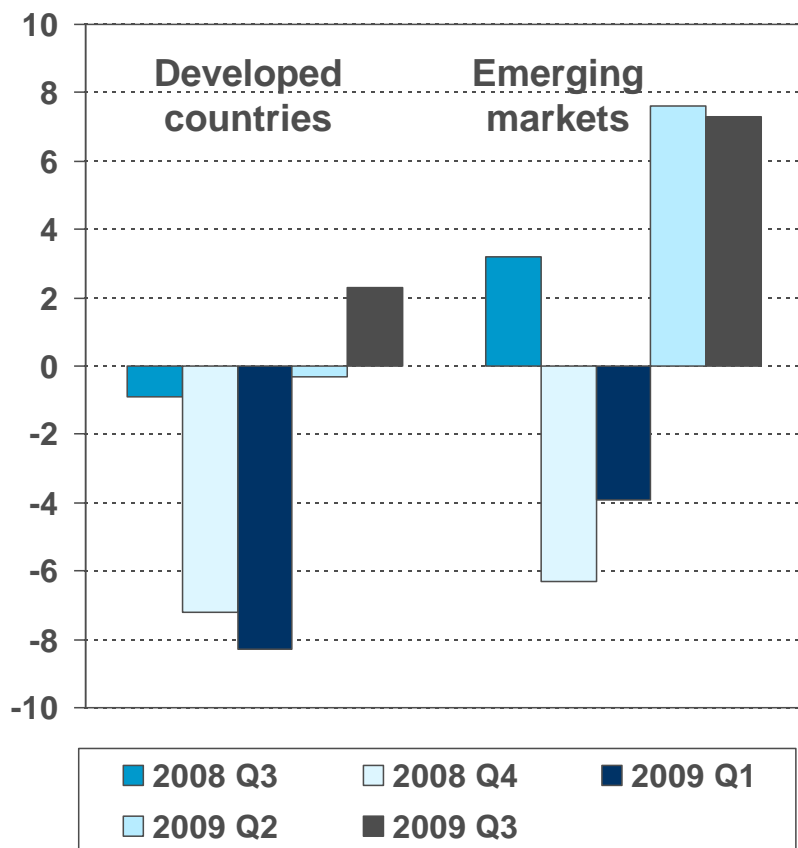
Industrial production (world)



Global economy

Recession ended in the Summer

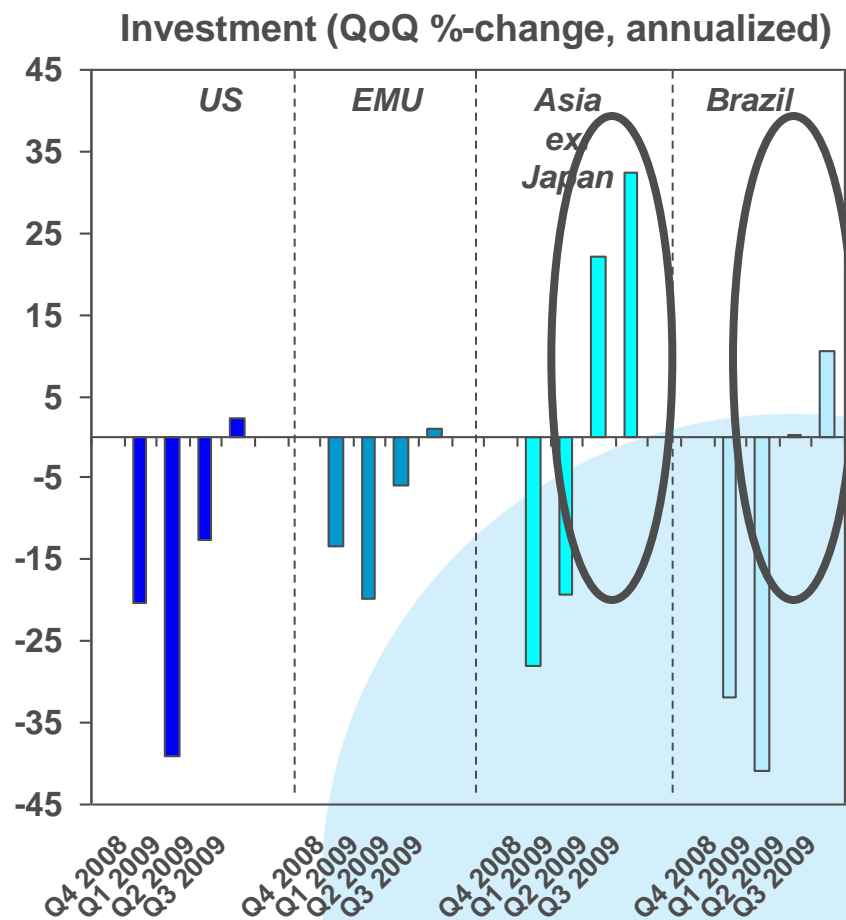
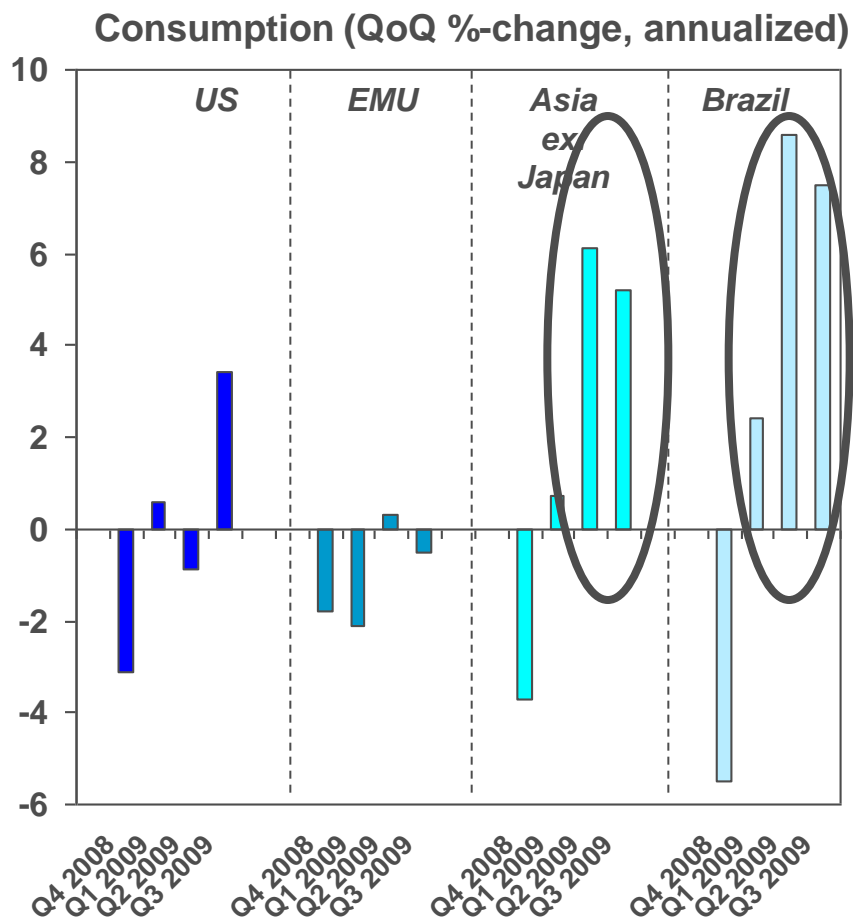
GDP-growth (annualized, in %)



Real GDP-growth (QoQ, ann., in %)	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Developed countries	-7.2	-8.3	-0.3	2.3
- US	-5.4	-6.4	-0.7	2.8
- EMU	-6.9	-9.6	-0.7	1.5
- Japan	-13.1	-12.4	2.7	4.8
Emerging markets	-6.3	-3.9	7.6	7.3
- Asia ex. Japan	-5.1	2.5	12.4	9.3
- CEE	-7.7	-19.3	2.1	4.7
- Latin-America	-8.8	-10.0	2.0	5.7

Global economy

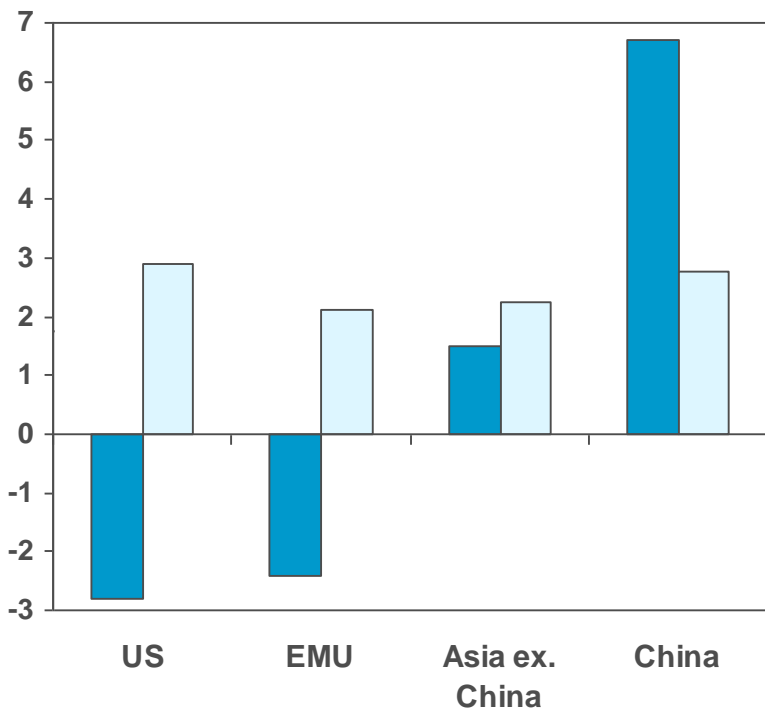
Emerging markets pulling the recovery



Global economy

Final demand remains weak in developed markets

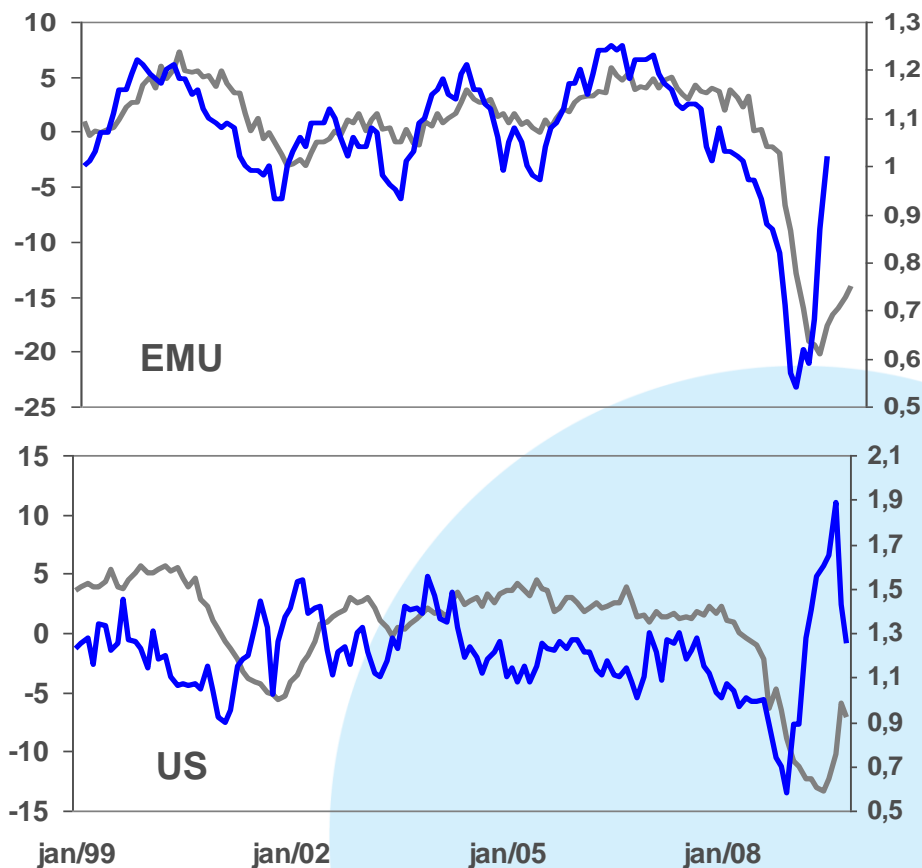
Fiscal stimulus versus final domestic demand



■ Final domestic demand (expected YoY %-change 2009)
 □ Discretionary fiscal stimulus for 2009 (% of GDP) (*)

(*) Change in cyclically-adjusted fiscal balances relative to 2008

Manufacturing supported by inventory cycle

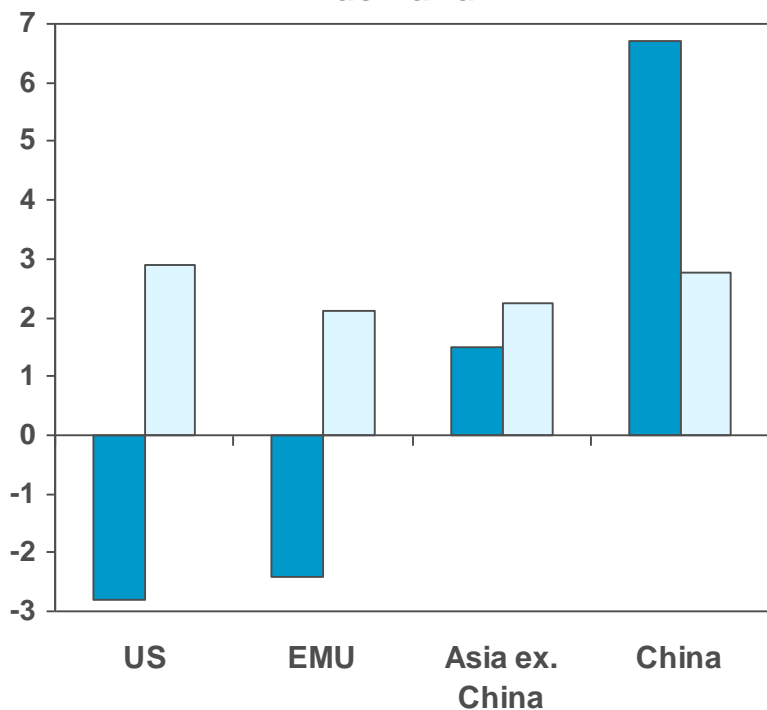


— Industrial production (YoY %-change, lhs)
 — Ratio orders/inventories (rhs)

Developed markets

Fiscal stimulus versus 'deleveraging' households

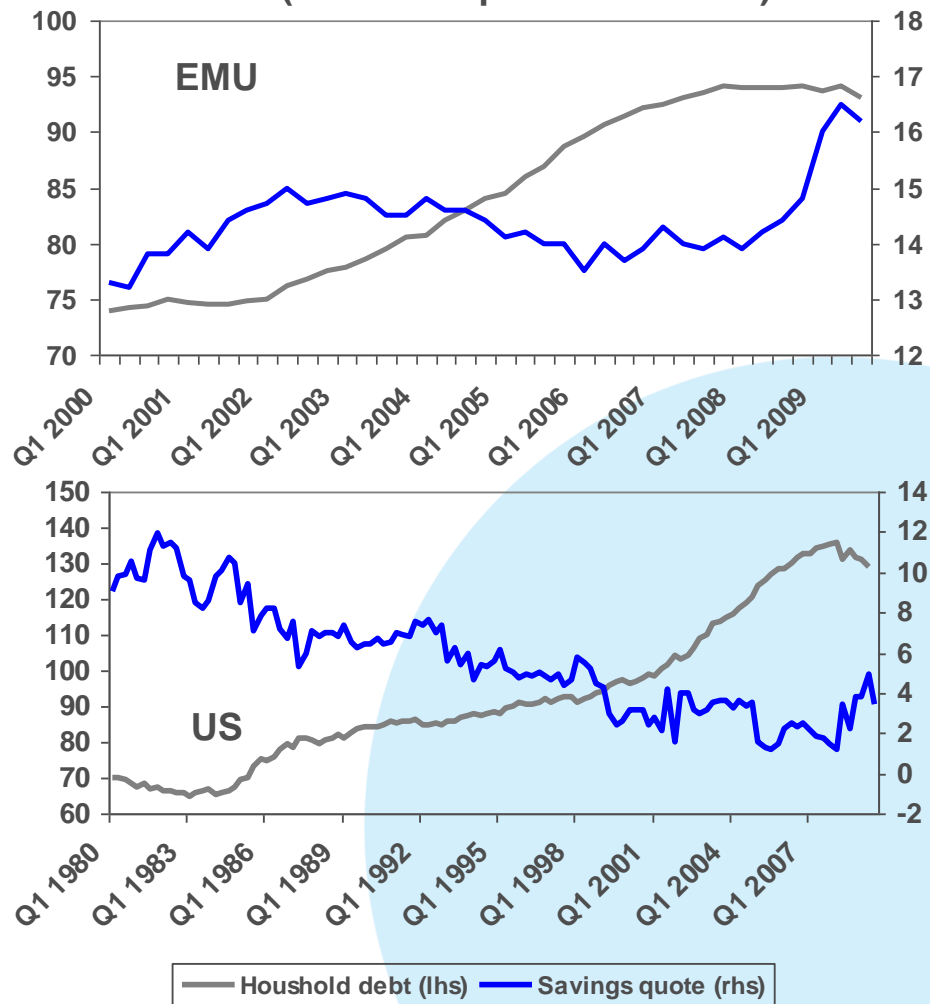
Fiscal stimulus versus final domestic demand



■ Final domestic demand (expected YoY %-change 2009)
 Discretionary fiscal stimulus for 2009 (% of GDP) (*)

(*) Change in cyclically-adjusted fiscal balances relative to 2008

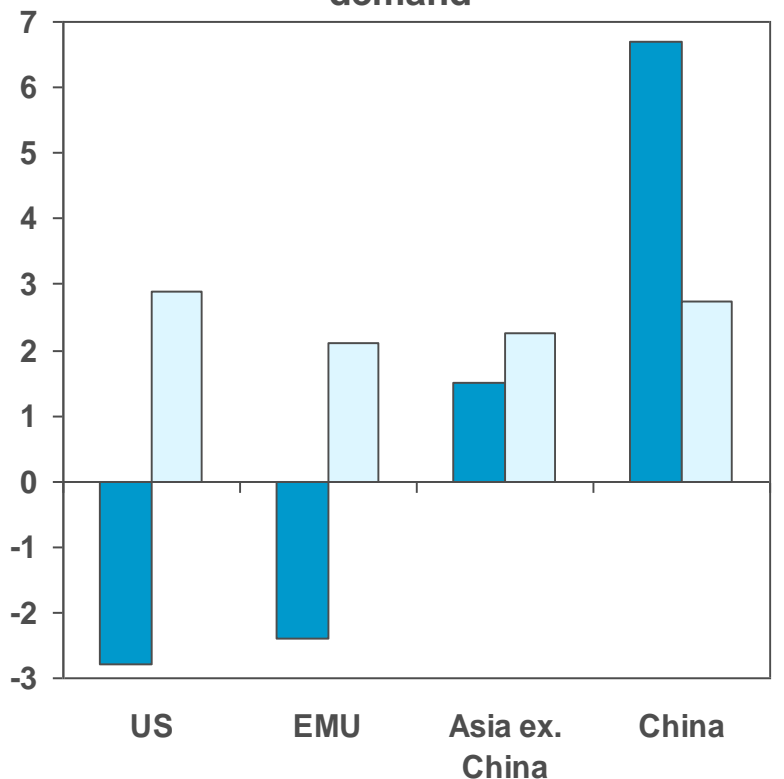
'Deleveraging' households (in % of disposable income)



Developed markets

Fiscal stimulus versus 'deleveraging' households

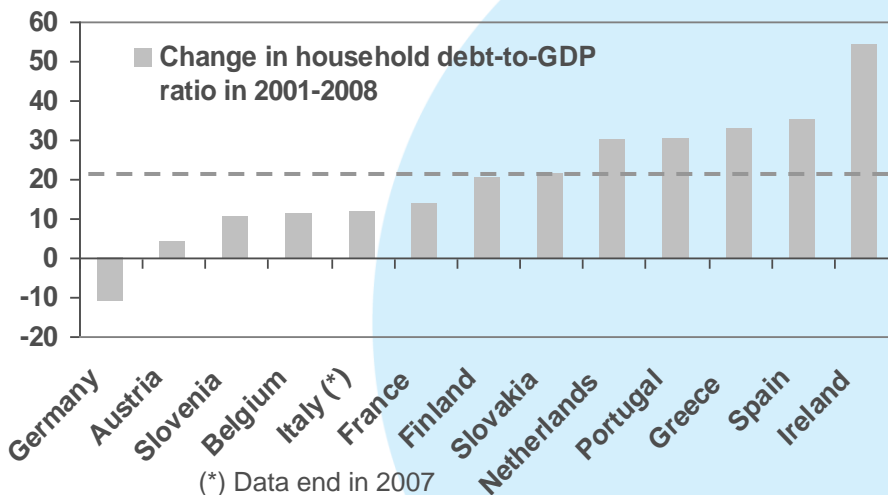
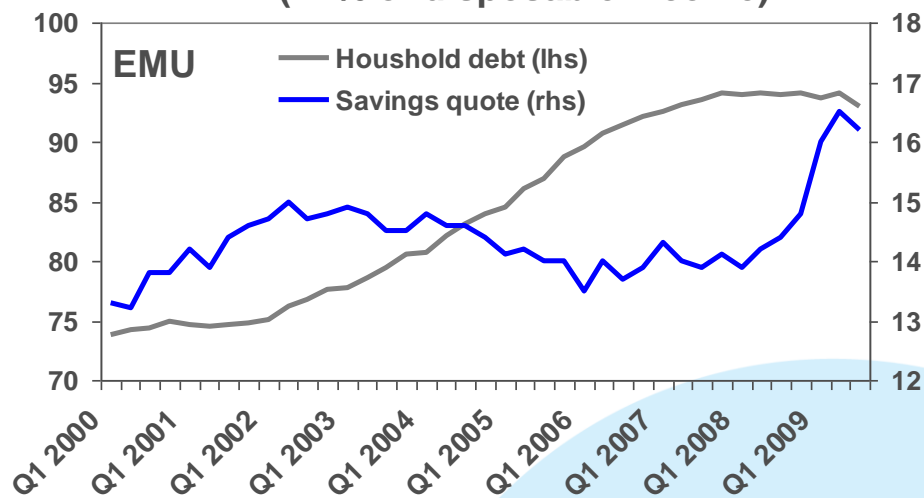
Fiscal stimulus versus final domestic demand



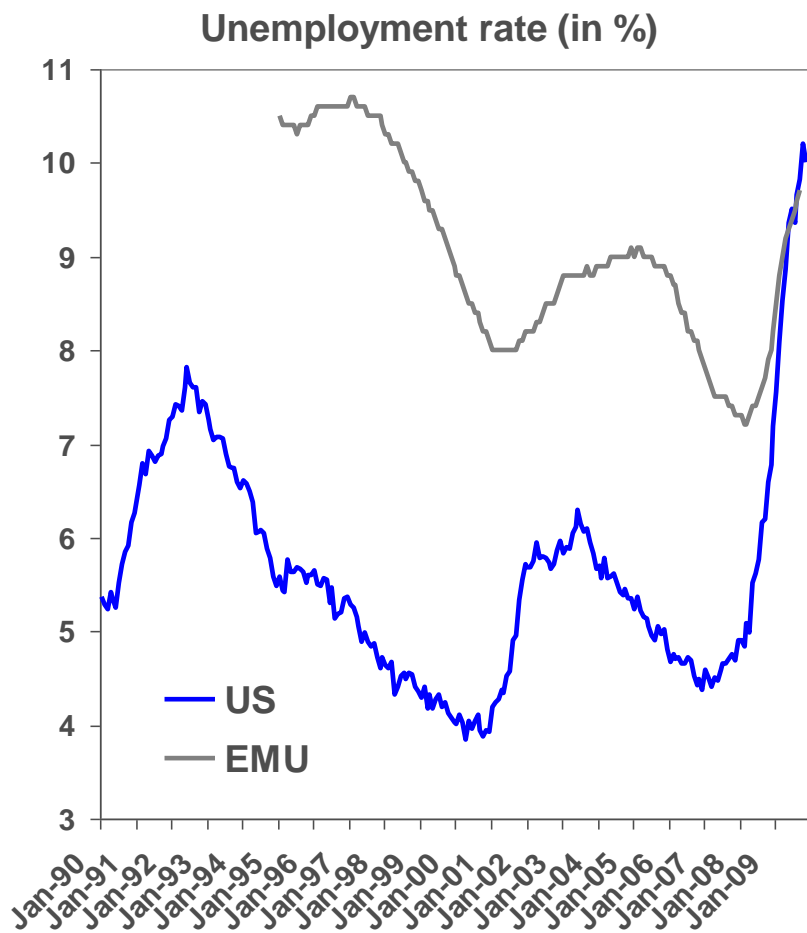
■ Final domestic demand (expected YoY %-change 2009)
 □ Discretionary fiscal stimulus for 2009 (% of GDP) (*)

(*) Change in cyclically-adjusted fiscal balances relative to 2008

'Deleveraging' households (in % of disposable income)

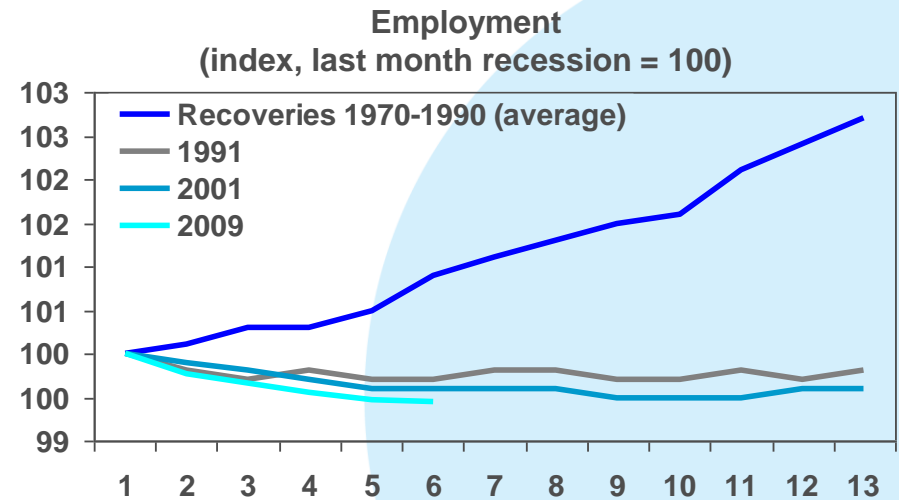
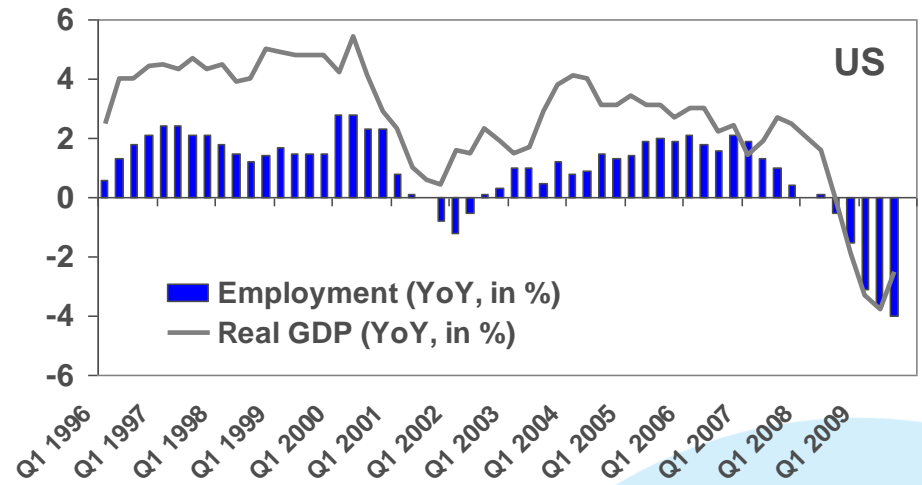
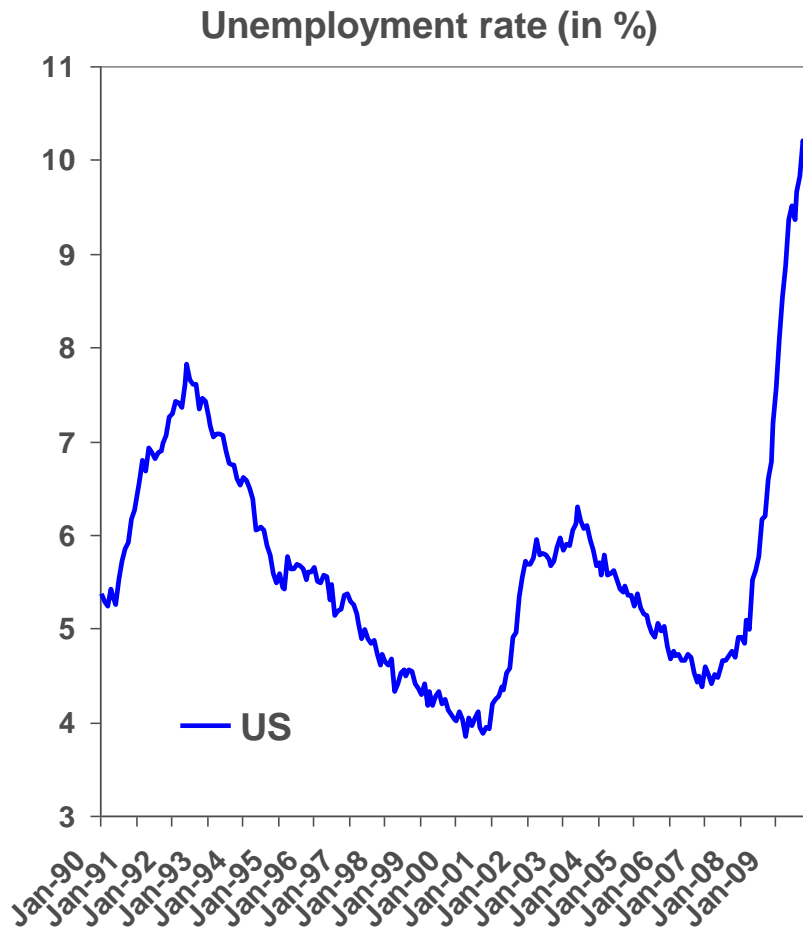


(*) Data end in 2007



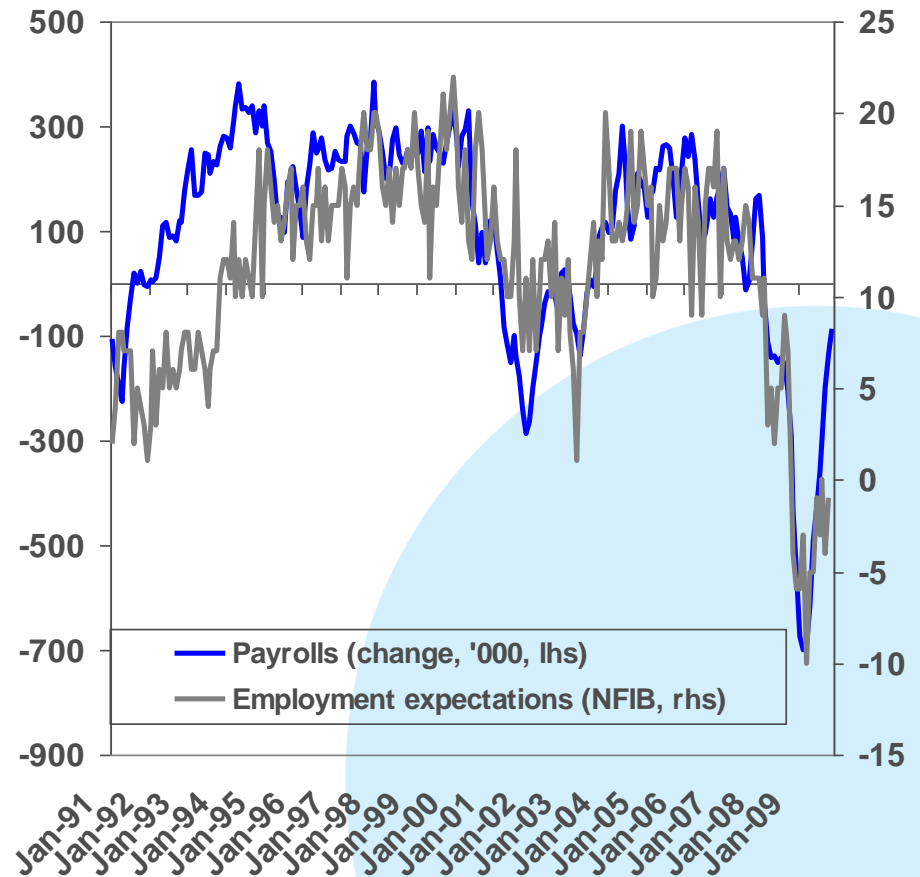
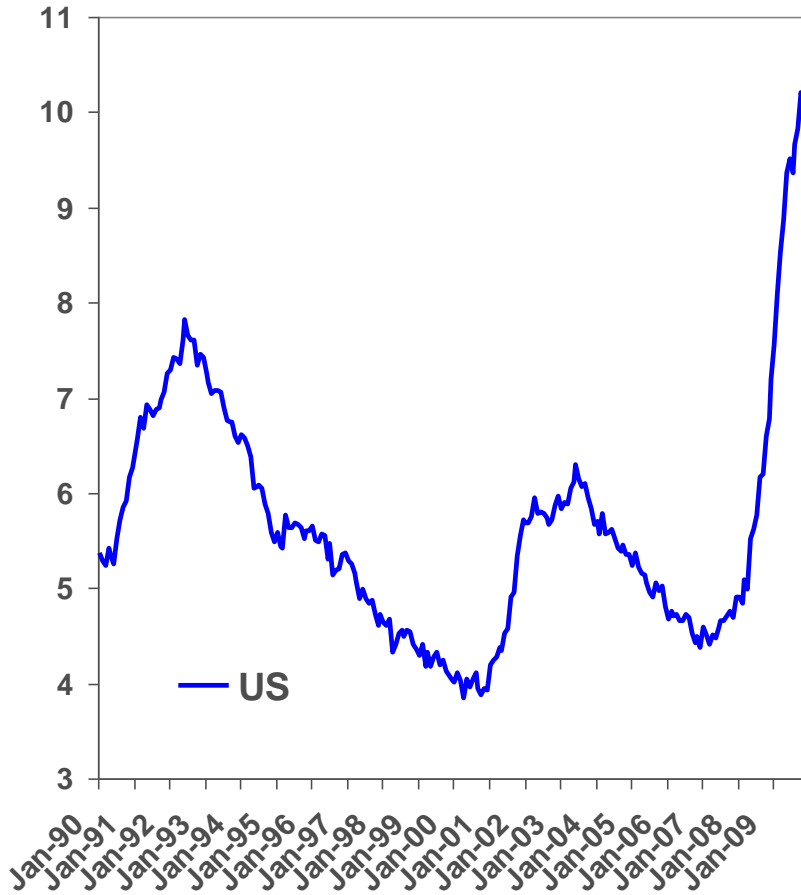
Labour market

US - Another jobloss-recovery



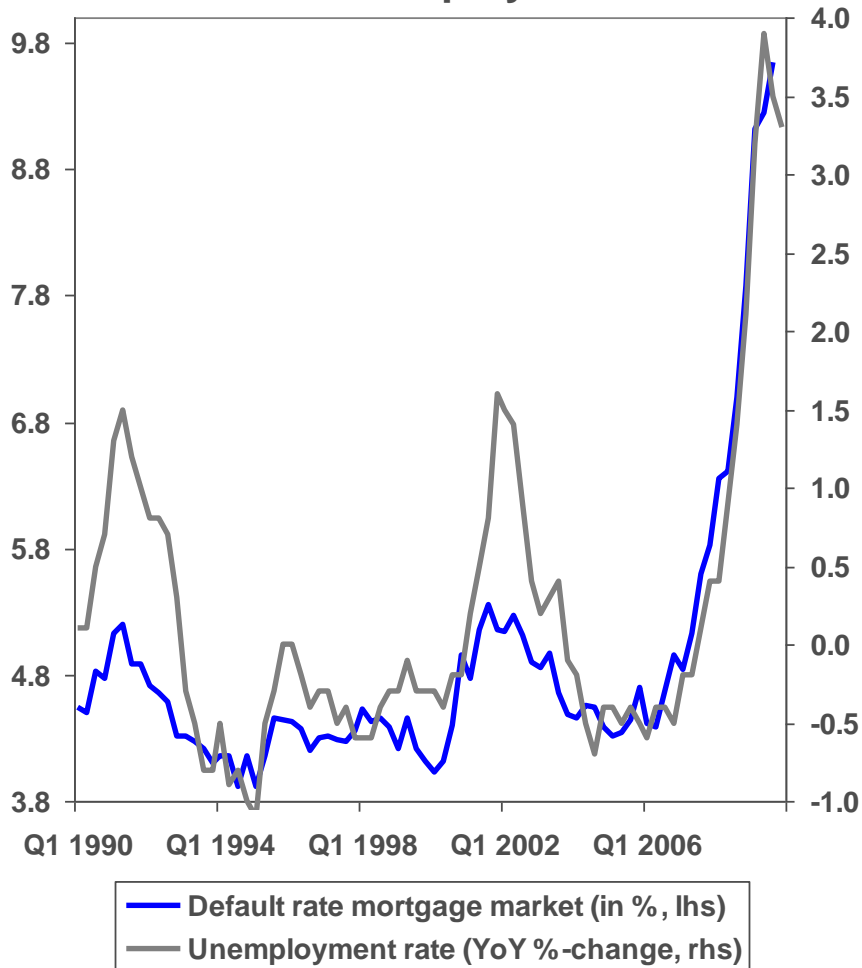
US – Green shoots indicate recovery next Spring...

Unemployment rate (in %)

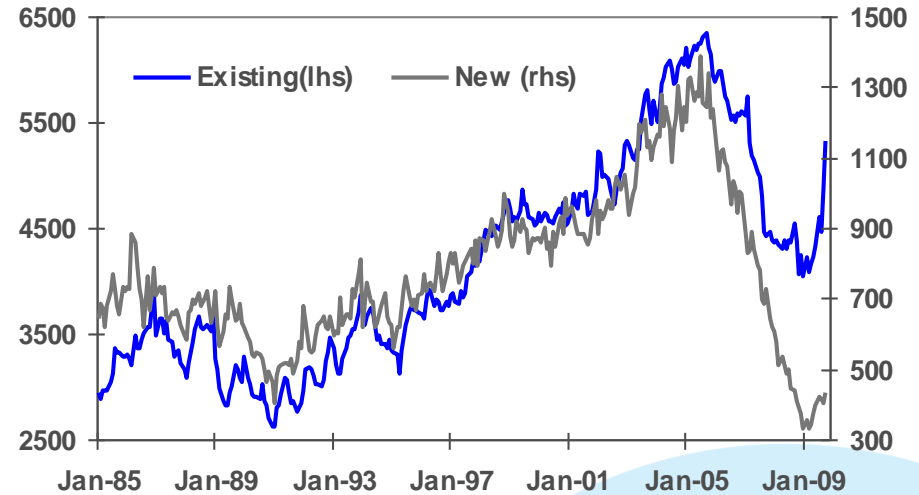


... which should support US housing recovery

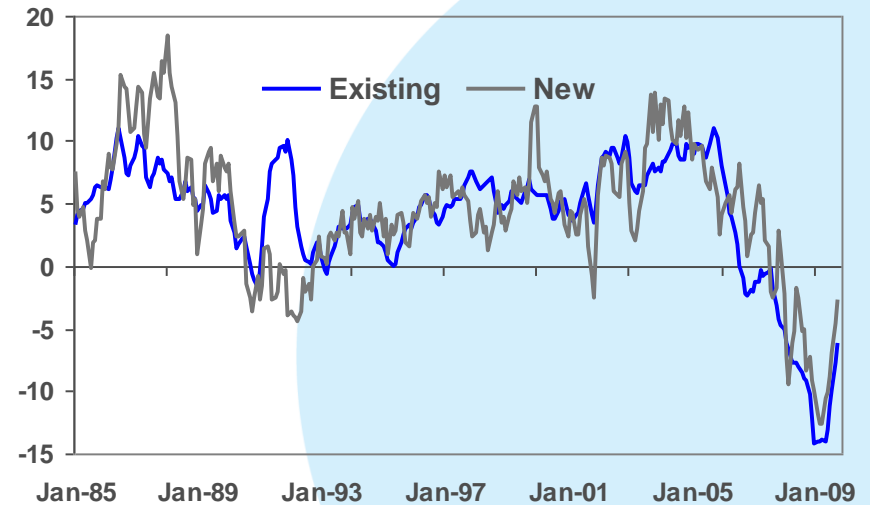
Mortgage defaults and unemployment



Home sales

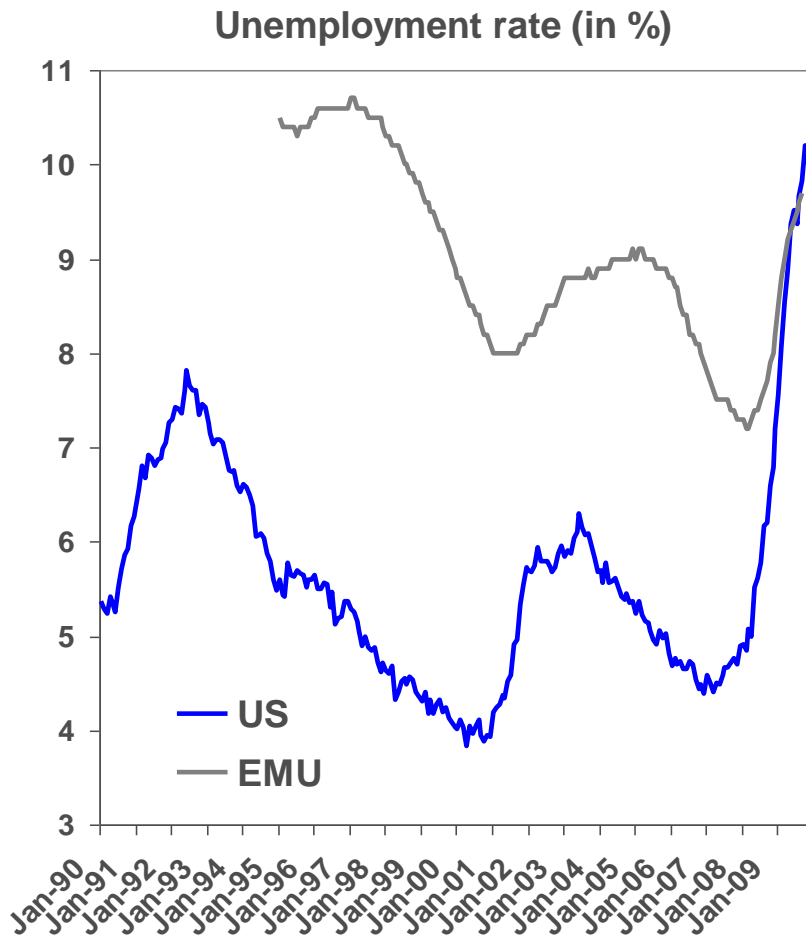


Home sales prices (YoY %-change)



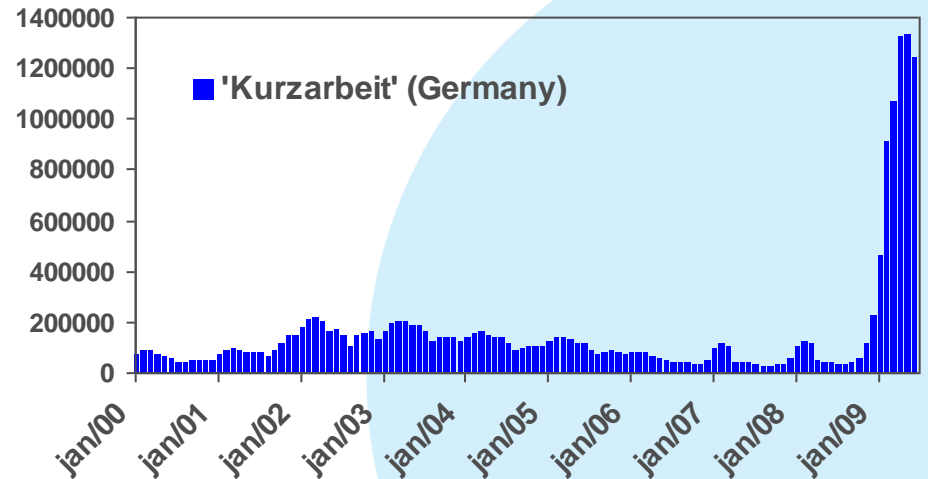
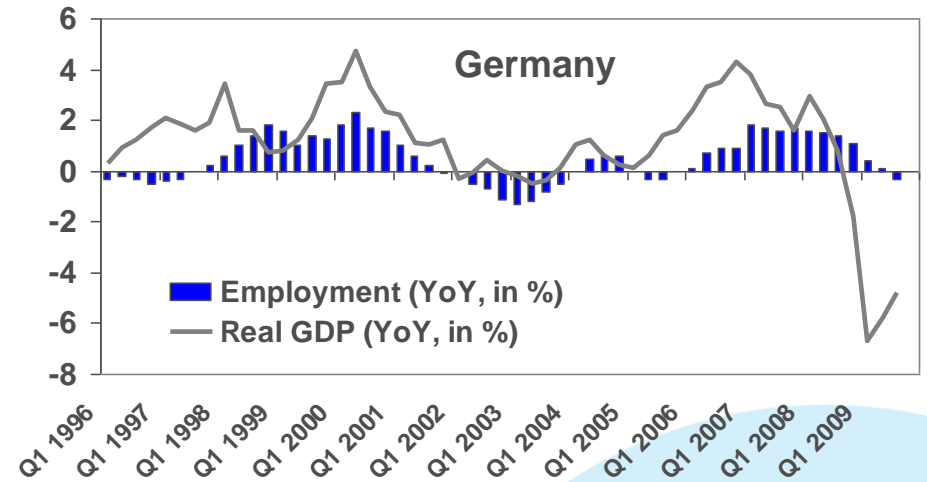
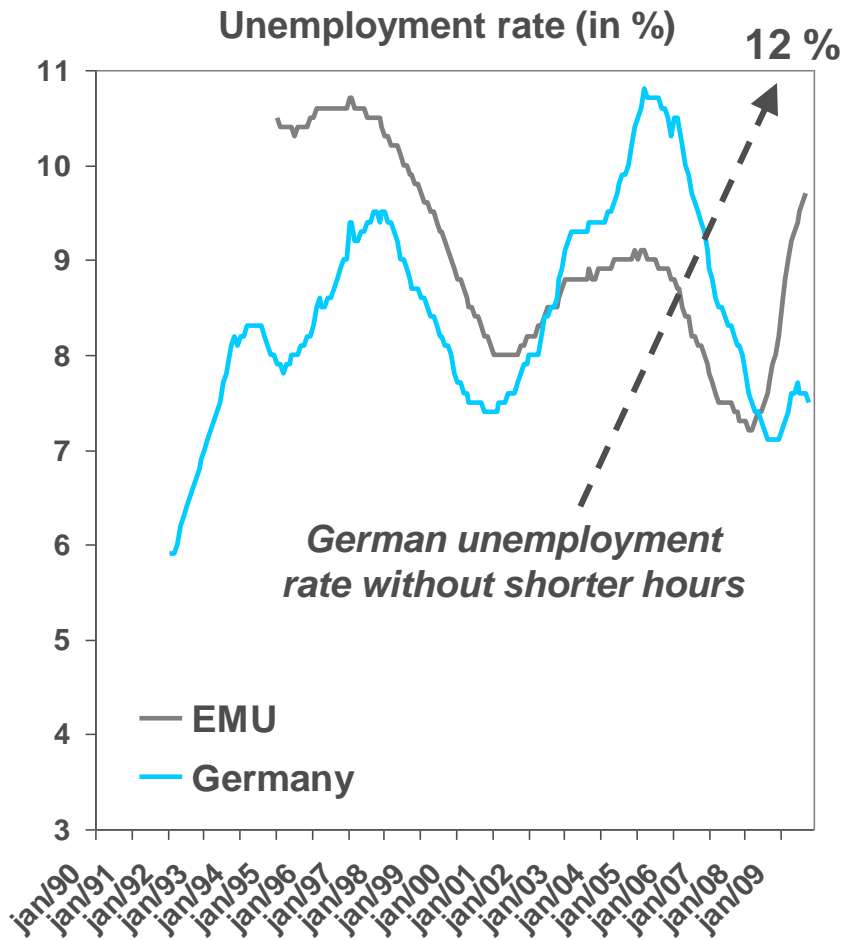
Labour market

EMU – Less resilient than it looks



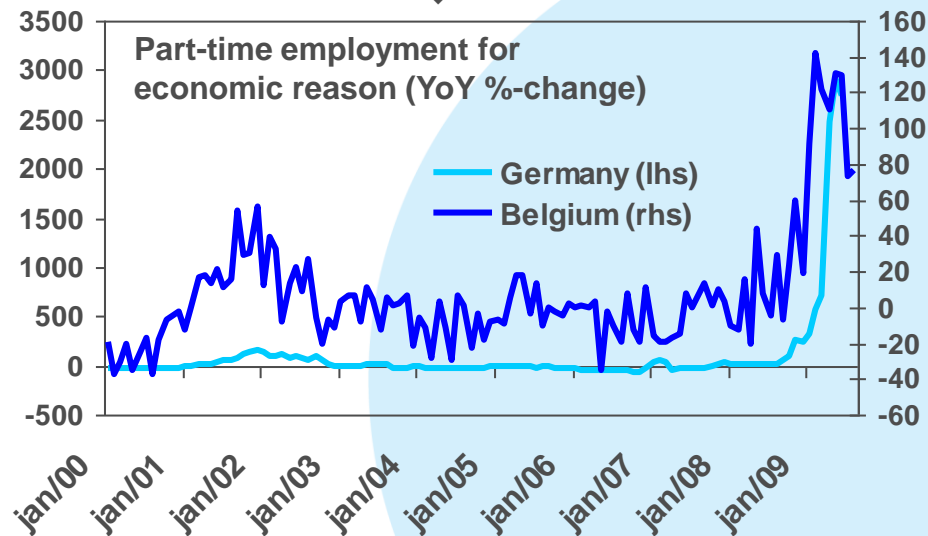
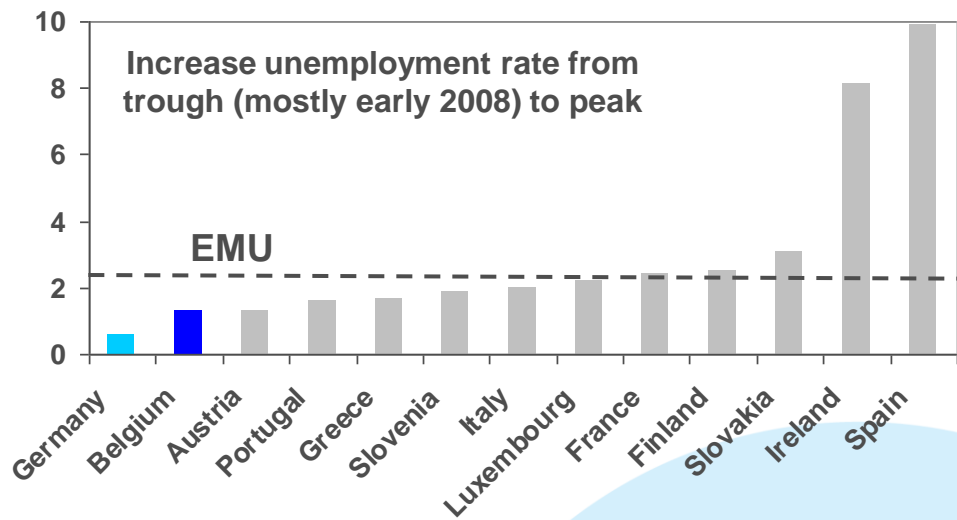
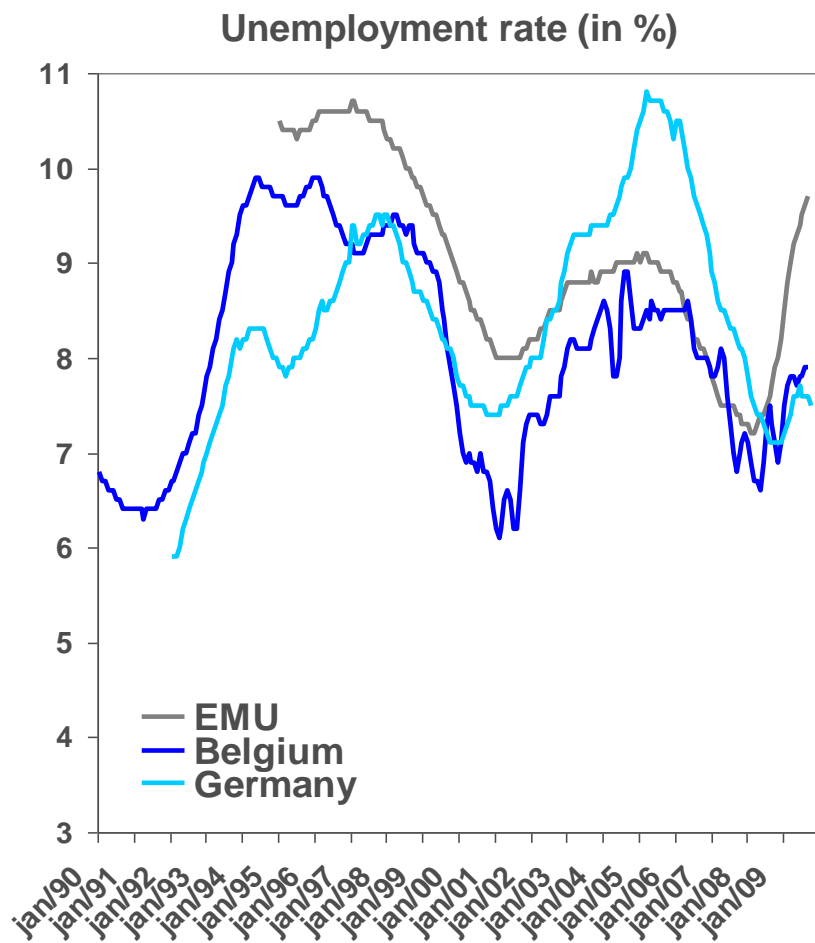
Labour market

EMU – Less resilient than it looks



Labour market

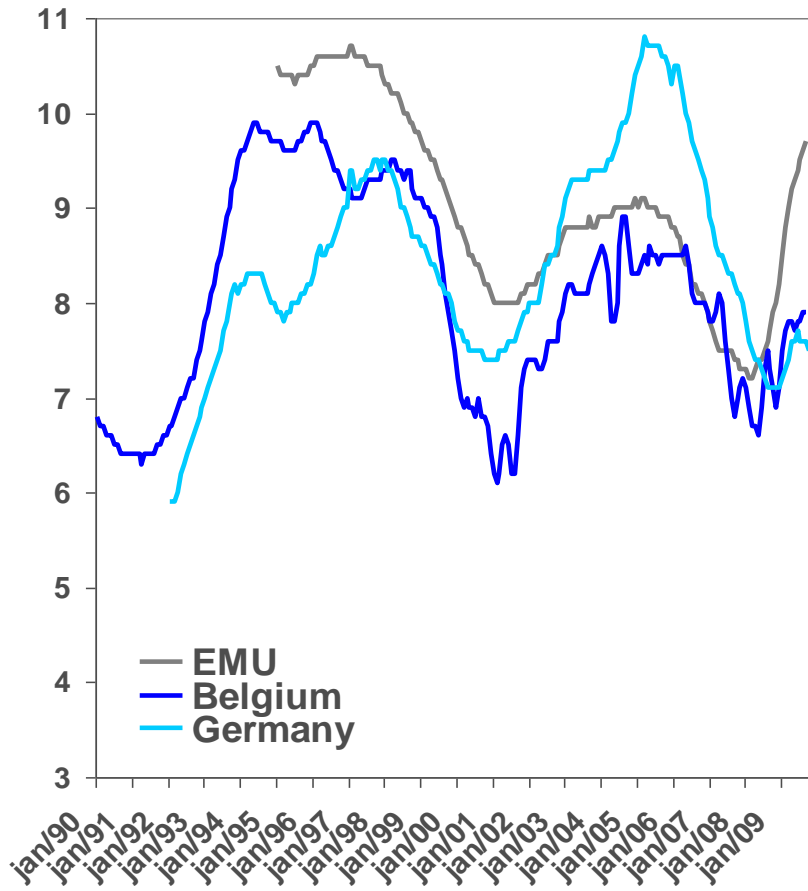
EMU – Less resilient than it looks



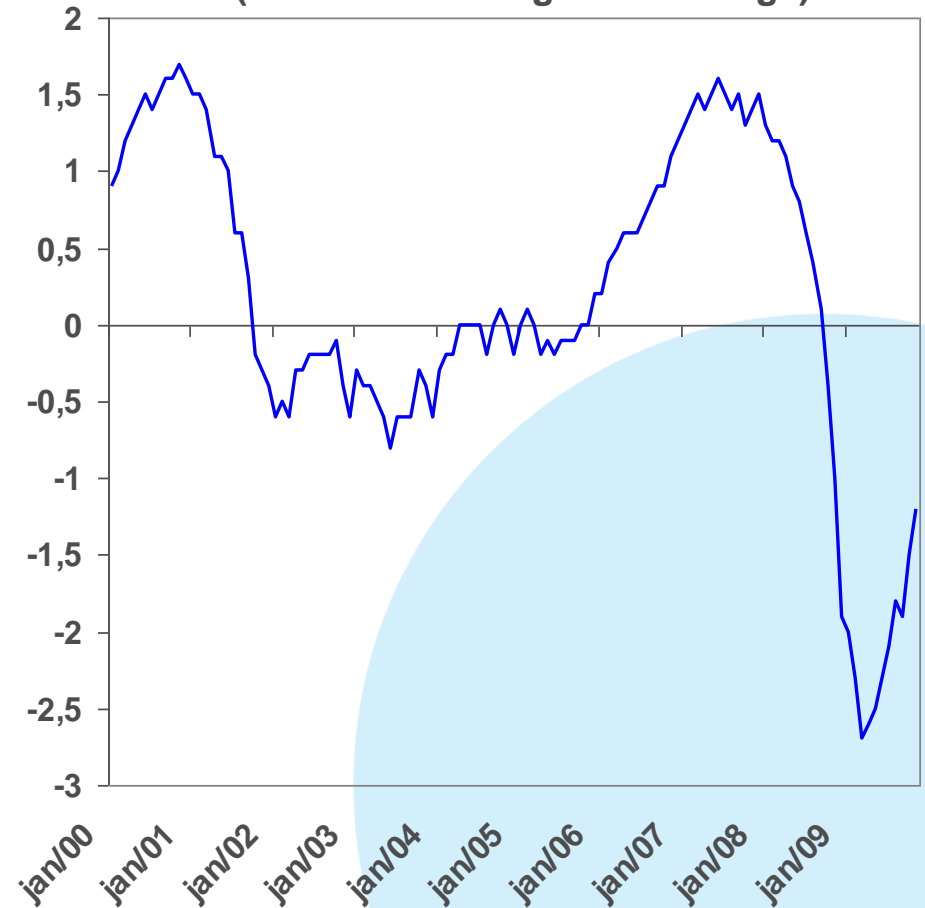
Labour market

EMU – ... some green shoots as well

Unemployment rate (in %)



Employment expectations EC-survey
(st. dev. from long-term average)



Corporate spending

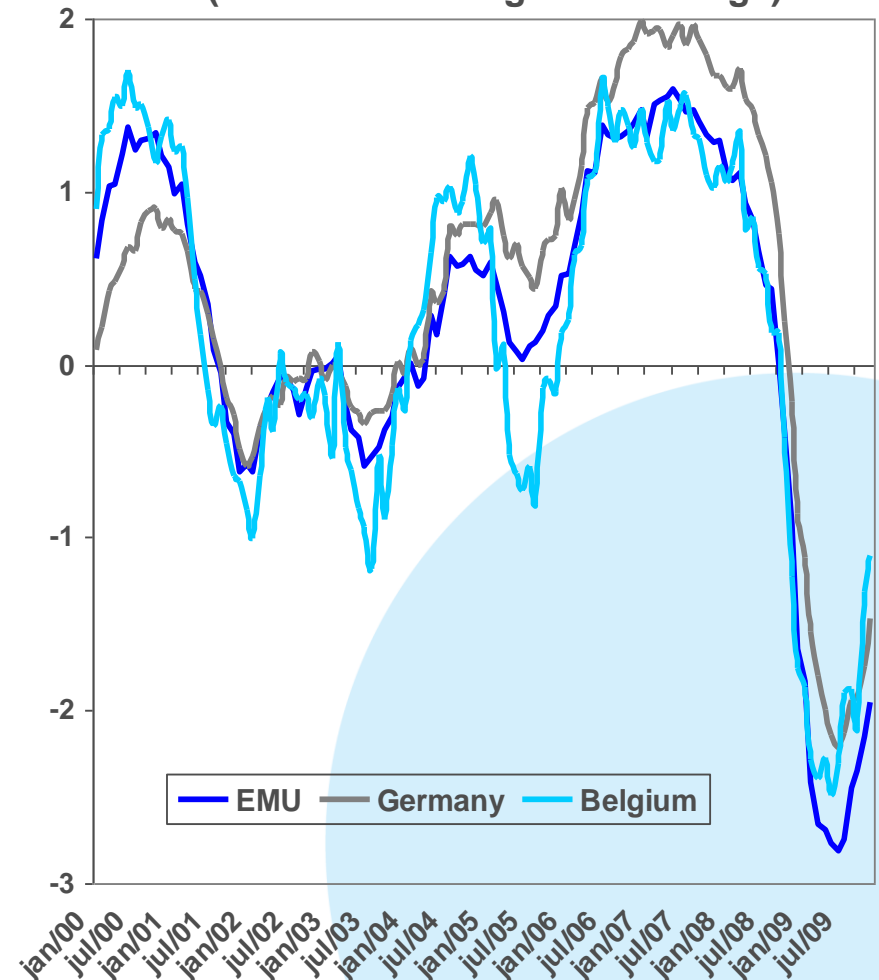
Two speed world

Capital expenditure
(YoY %-change)



• 17 • • 22/12/2009 •

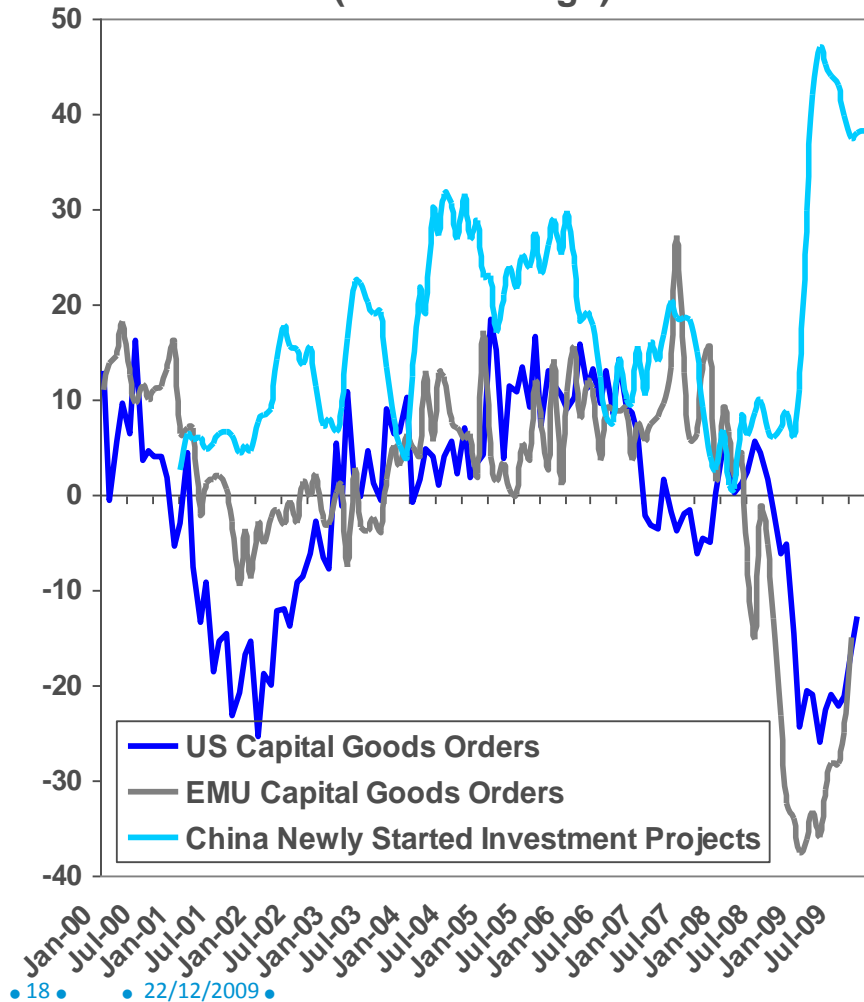
Export orders EC-survey
(st. dev. from long-term average)



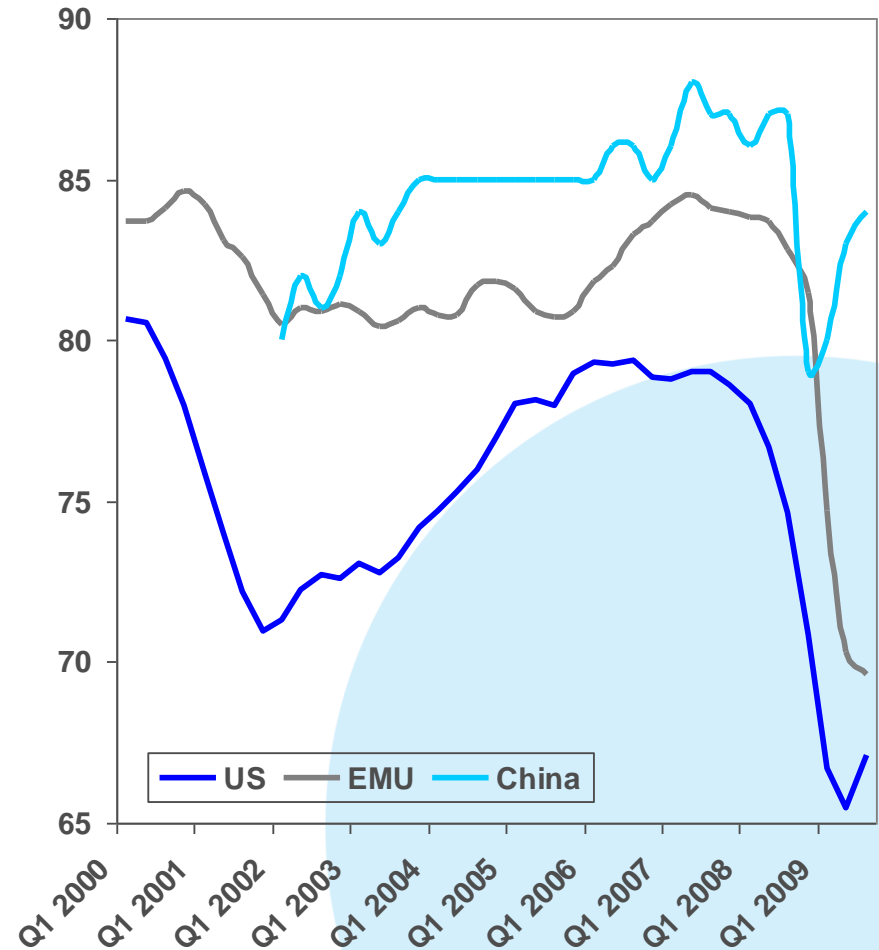
Corporate spending

Two speed world

Capital expenditure
(YoY %-change)



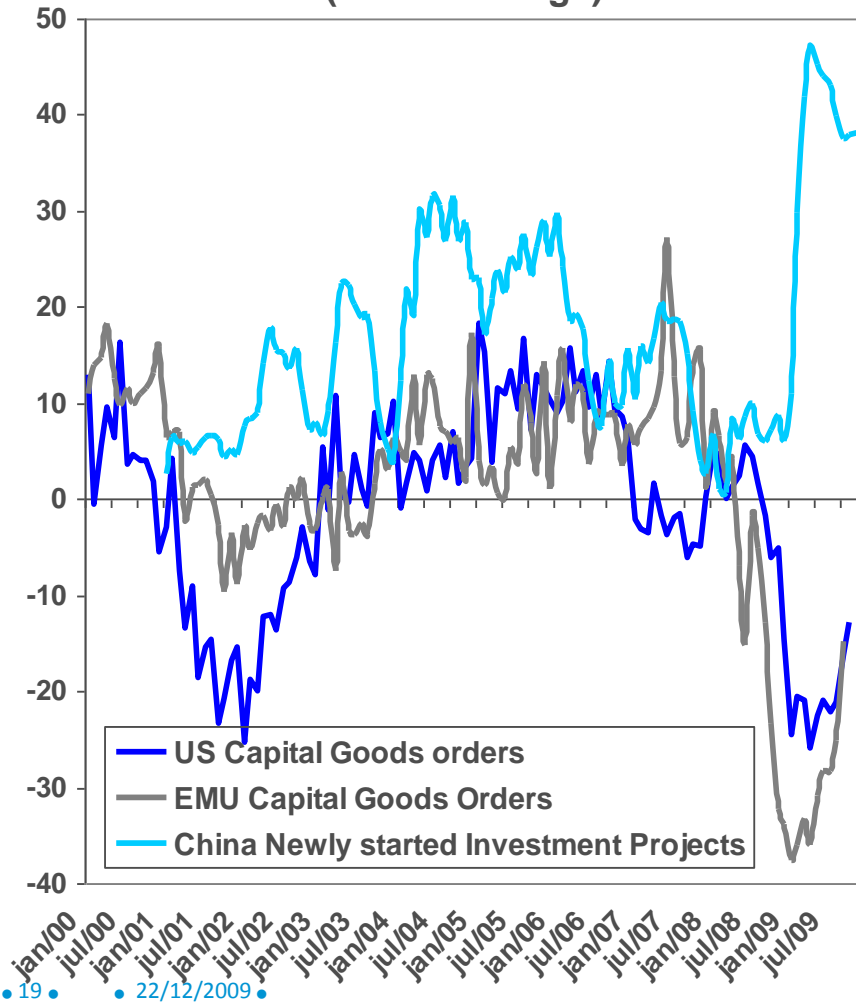
Capacity utilization in manufacturing
(in %)



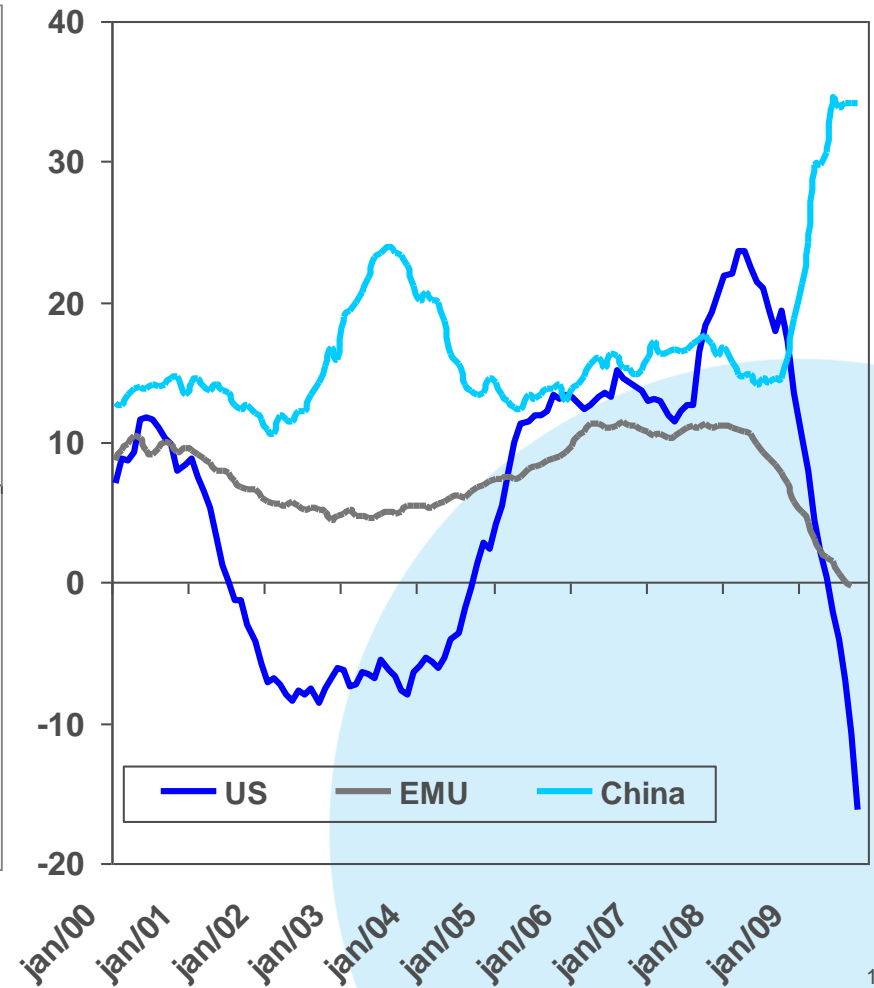
Corporate spending

Two speed world

Capital expenditure
(YoY %-change)



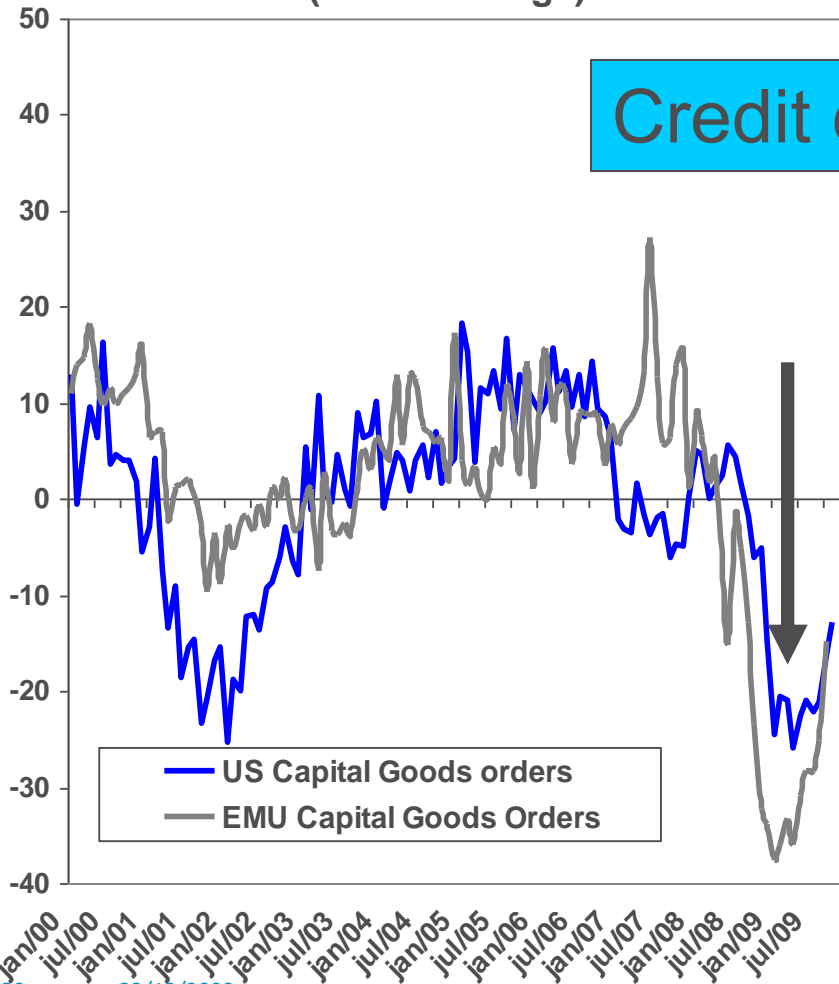
Bank loans to the private sector
(YoY %-change)



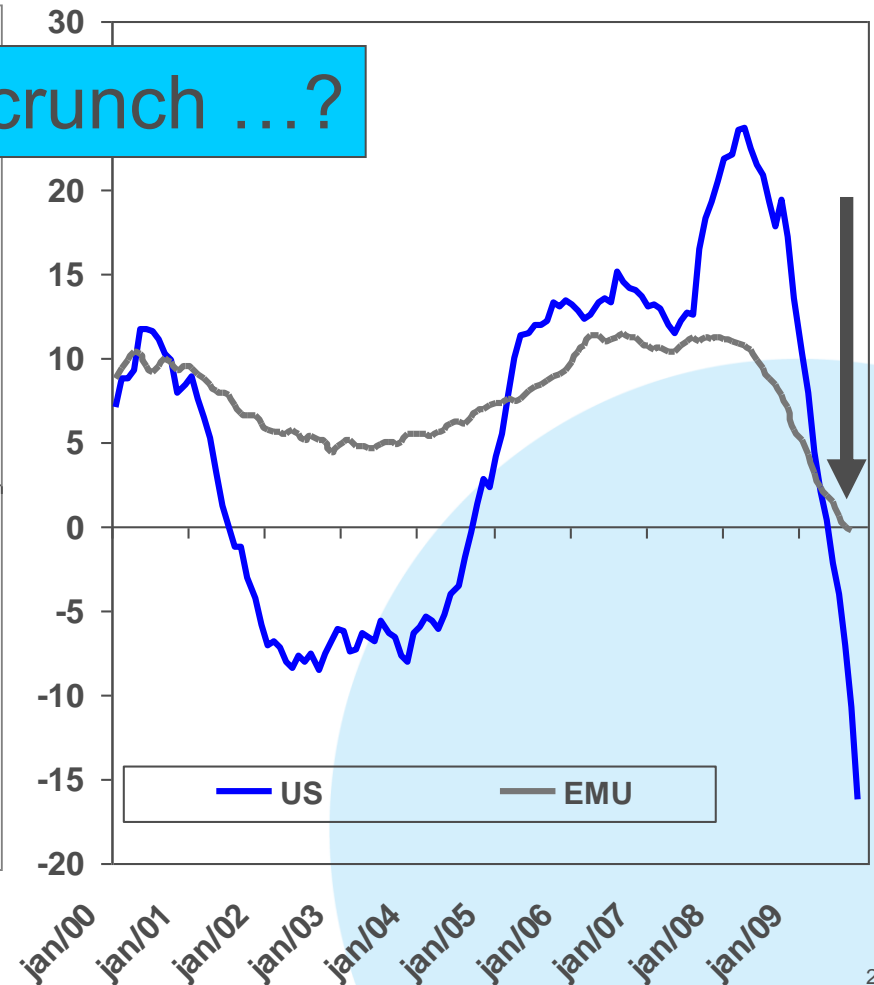
Corporate spending

Two speed world

Capital expenditure
(YoY %-change)



Bank loans to the private sector
(YoY %-change)

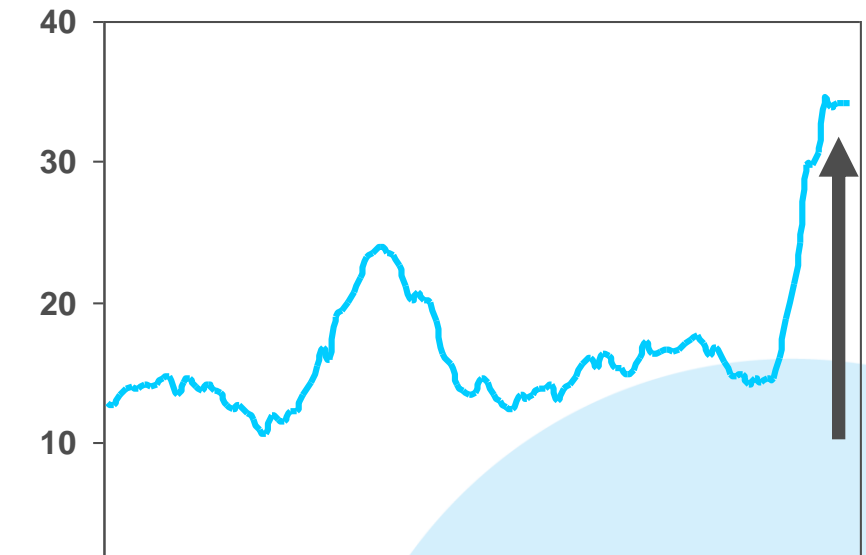
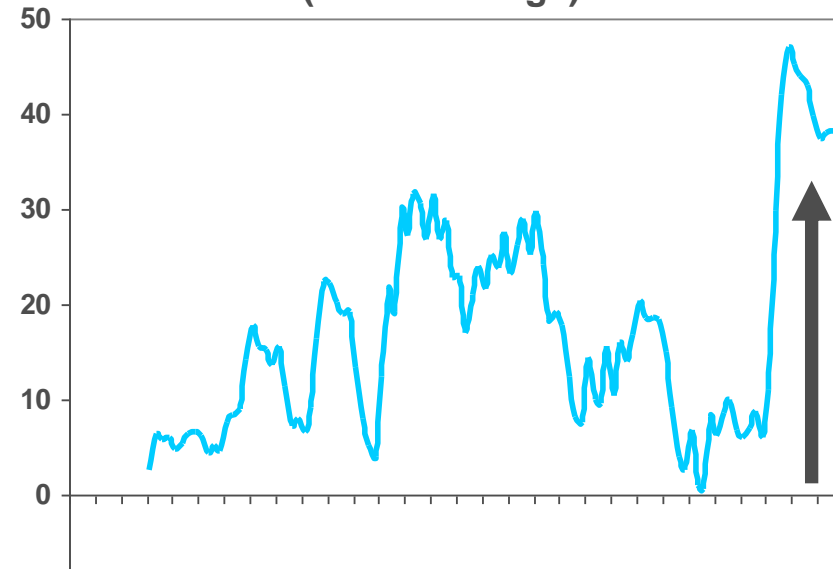


Corporate spending

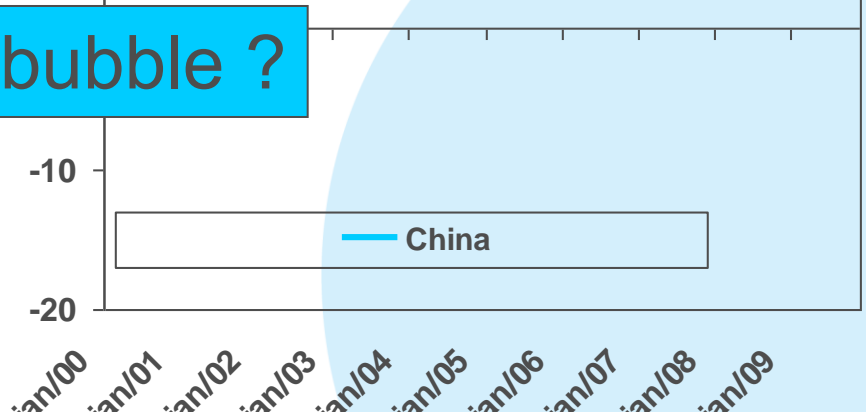
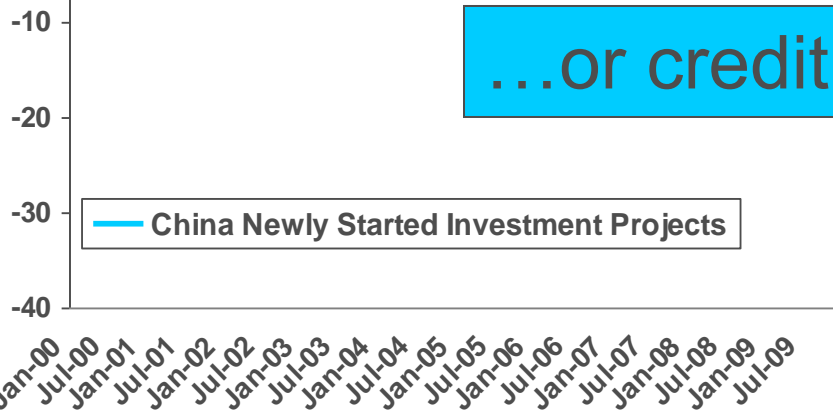
Two speed world

Capital expenditure
(YoY %-change)

Bank loans to the private sector
(YoY %-change)



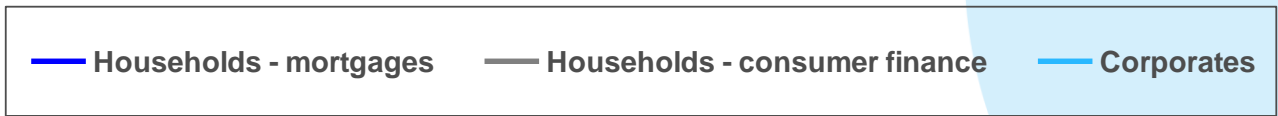
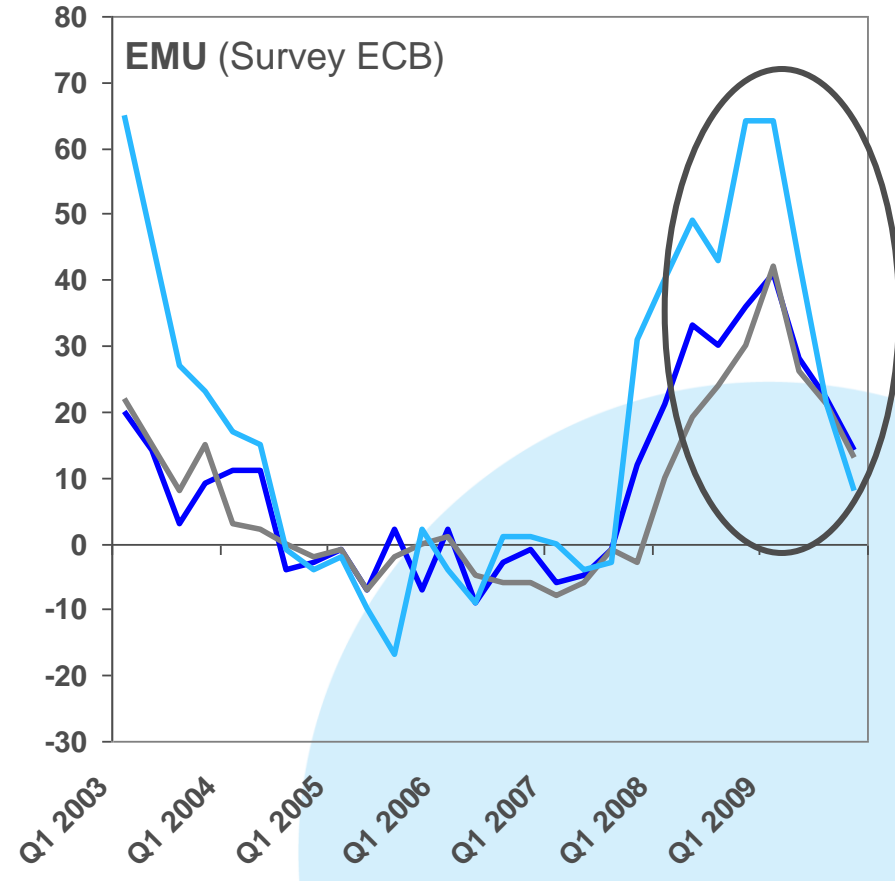
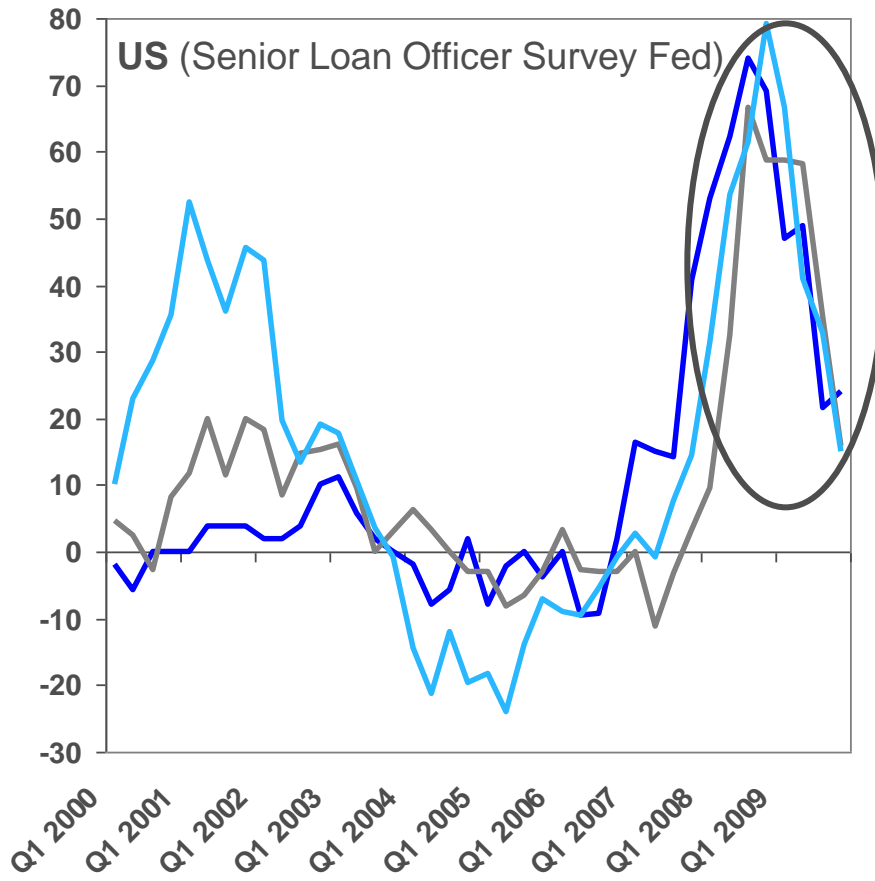
...or credit bubble ?



Credit crunch?

Easing

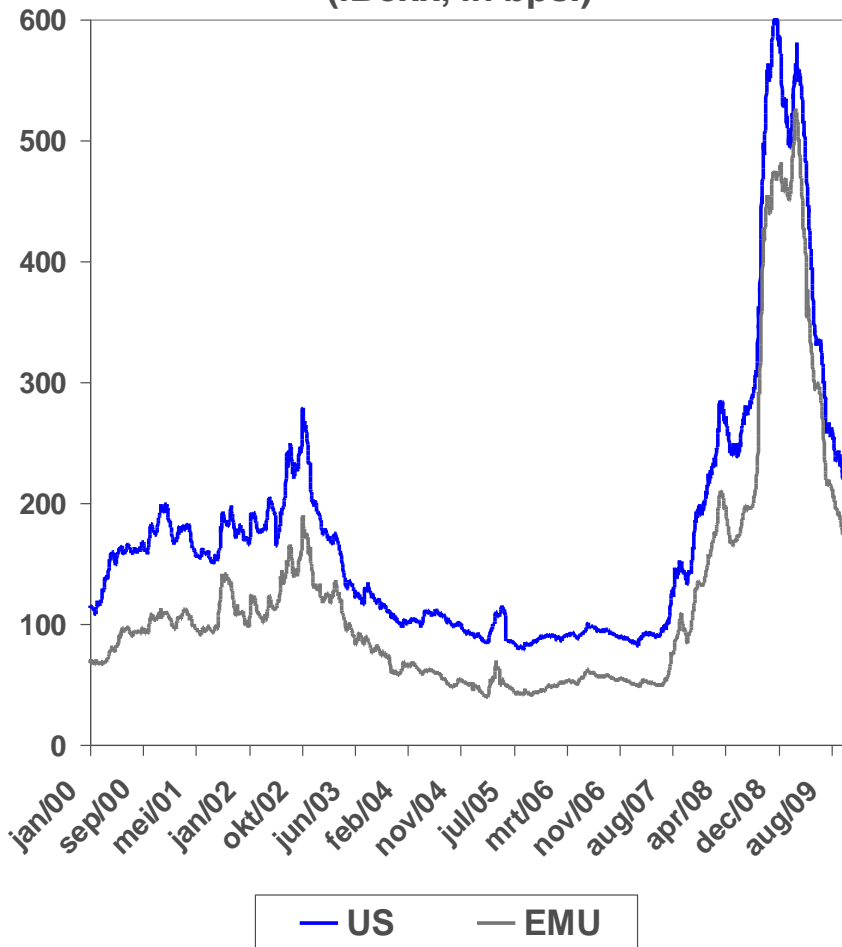
Banks reporting tighter credit conditions (in %, central bank surveys)



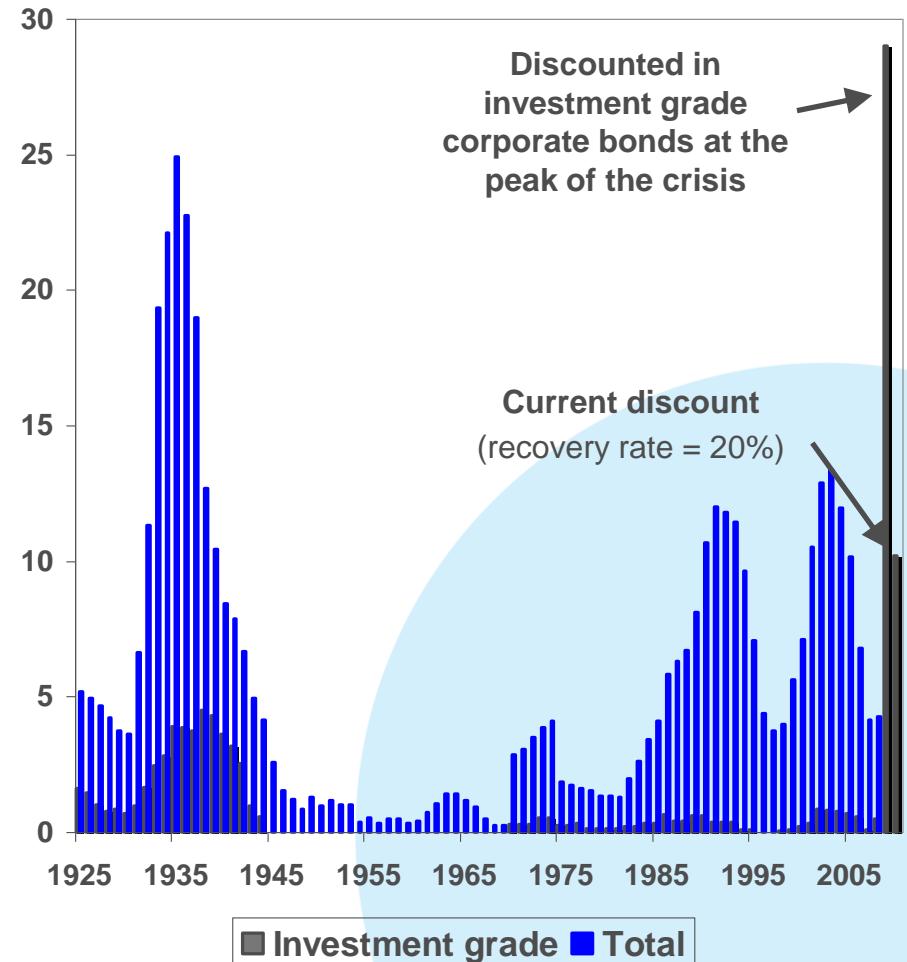
Credit crunch?

Easing

Credit spreads corporate bonds
(iBoxx, in bps.)



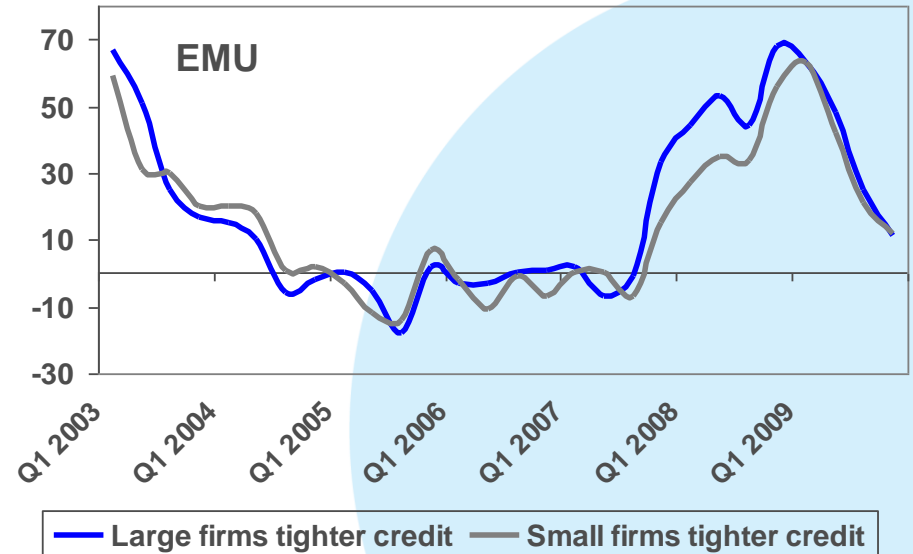
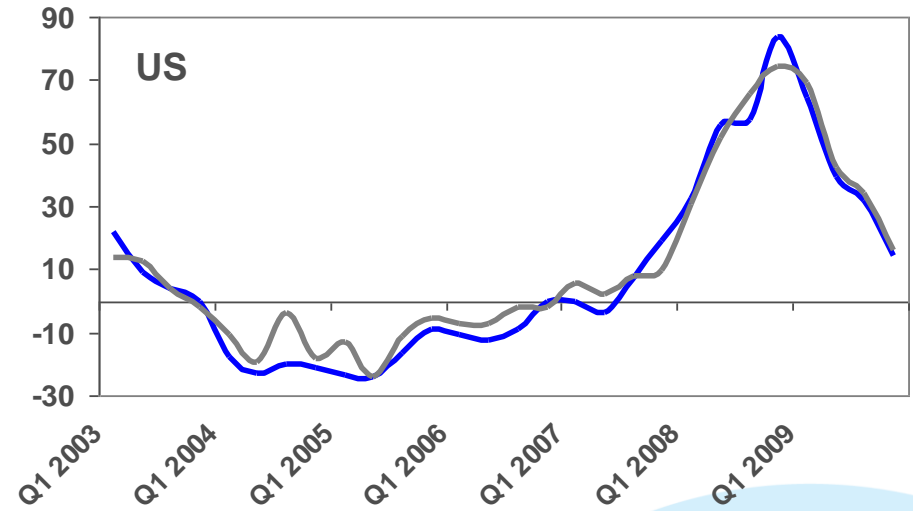
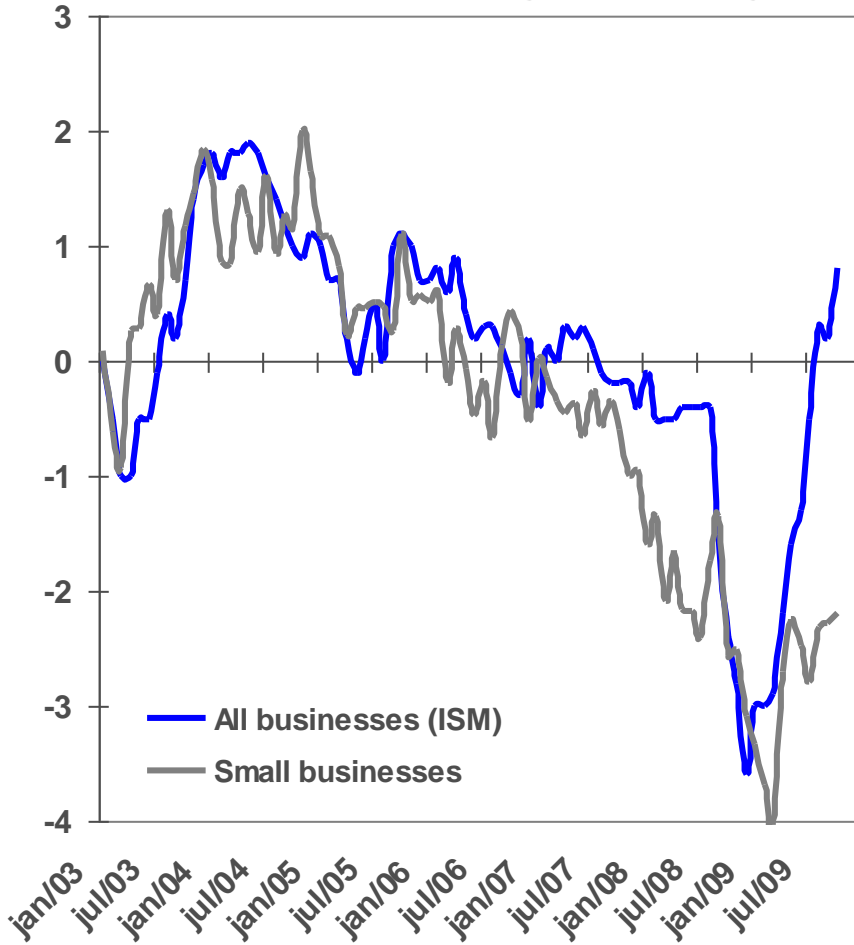
Cumulative 5-year corporate default rate (US)



Credit crunch ?

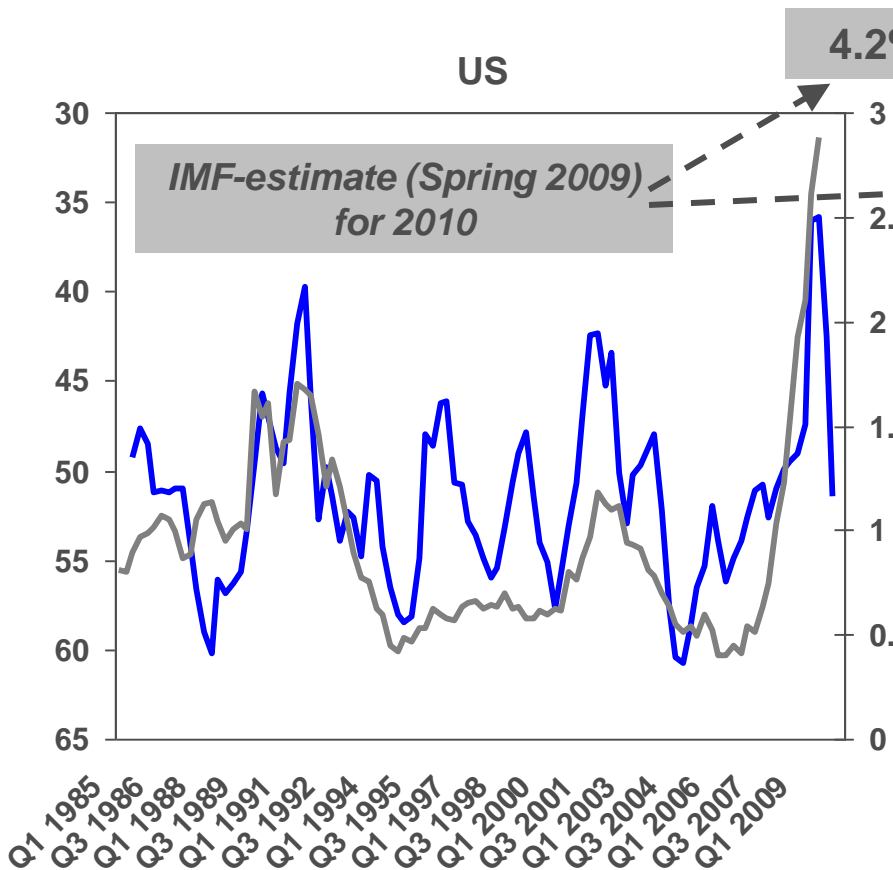
Easing, also for SME's

Producer confidence US
(st.dev. from long-term average)

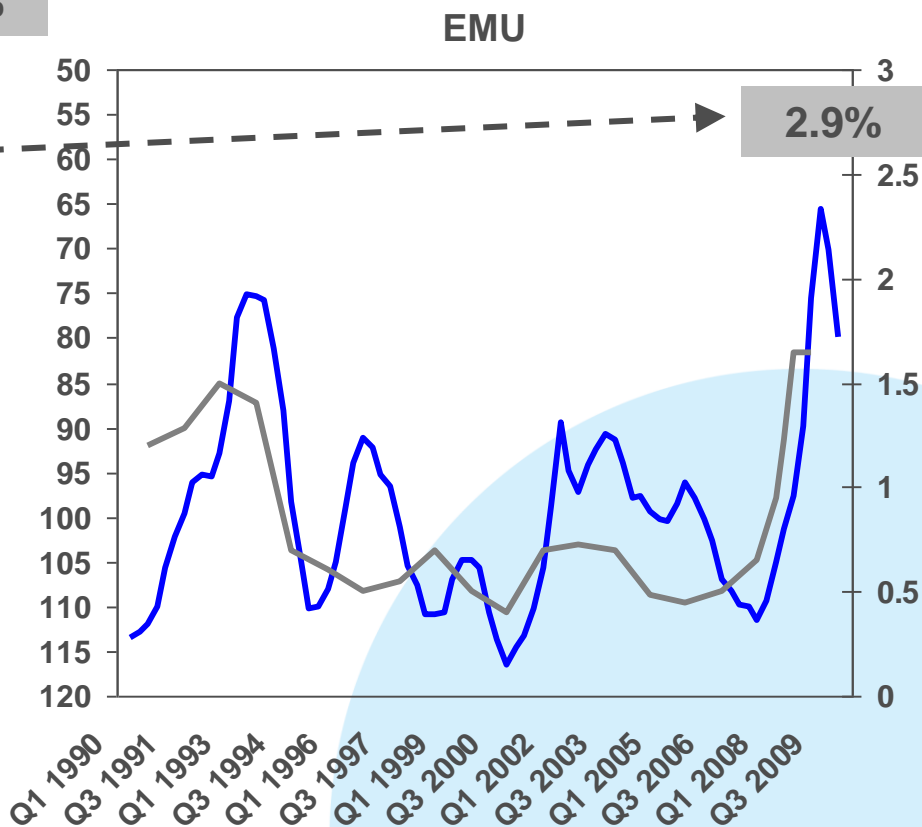


Banking system

Credit losses set to decline in 2010...



— ISM (+2 quarters, lhs, reversed scale)
— Loan charge-off rate (in % total loans outstanding, rhs)

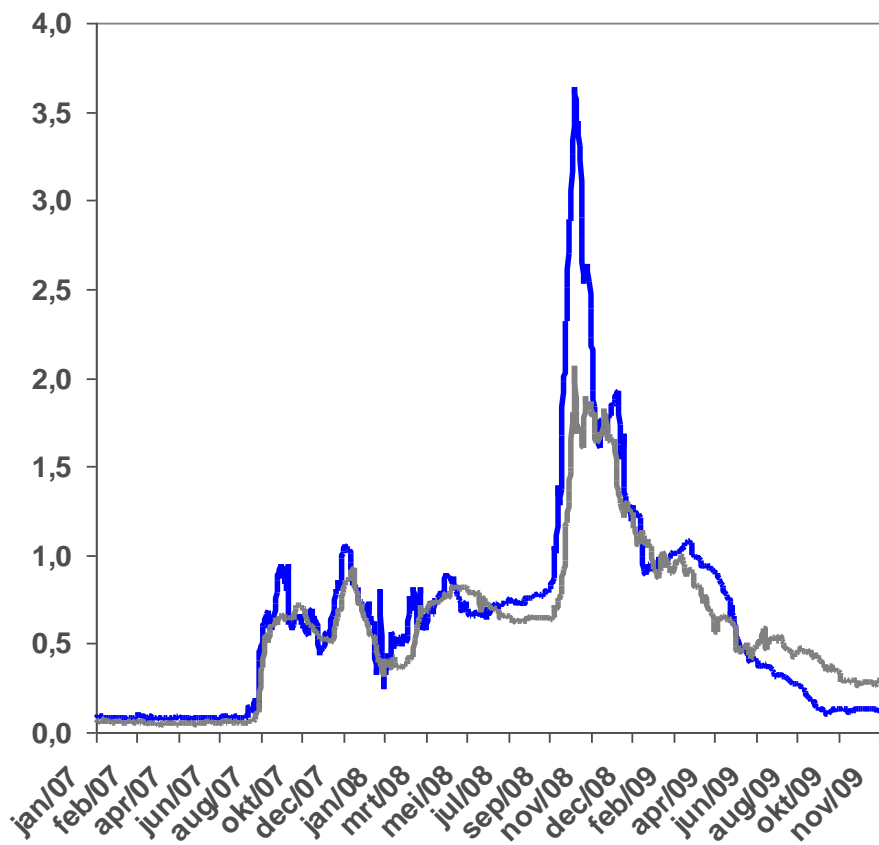


— EC sentiment (+2 quarters, lhs, reversed scale)
— Loan charge-off rate (in % total loans outstanding, rhs)

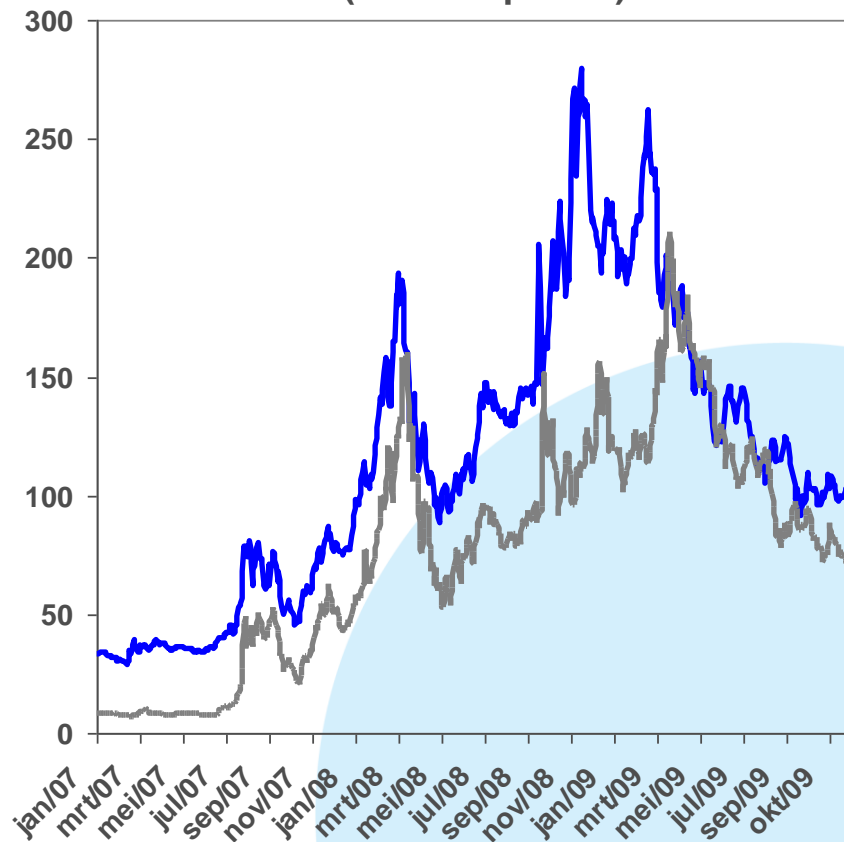
Banking system

... further restoring confidence...

Spread interbank loans versus policy rates
central banks (futures, in %)



Bank CDS spreads
(in basis points)

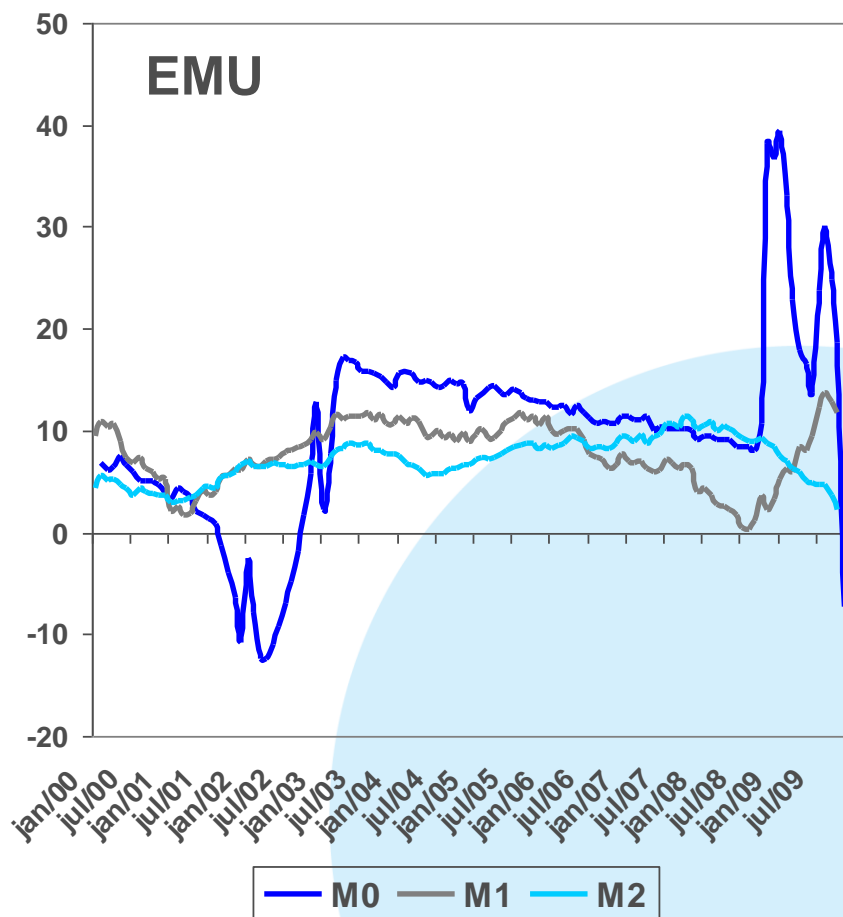
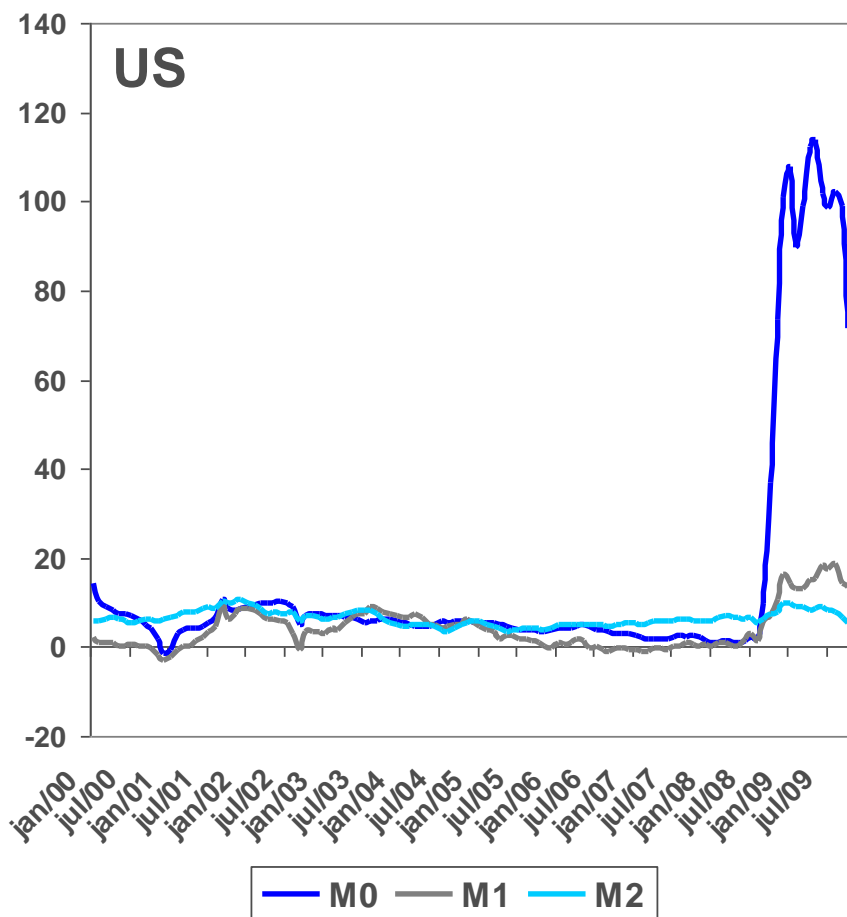


— US — EMU

Central bank support

...and paving the way for central banks' exit strategy

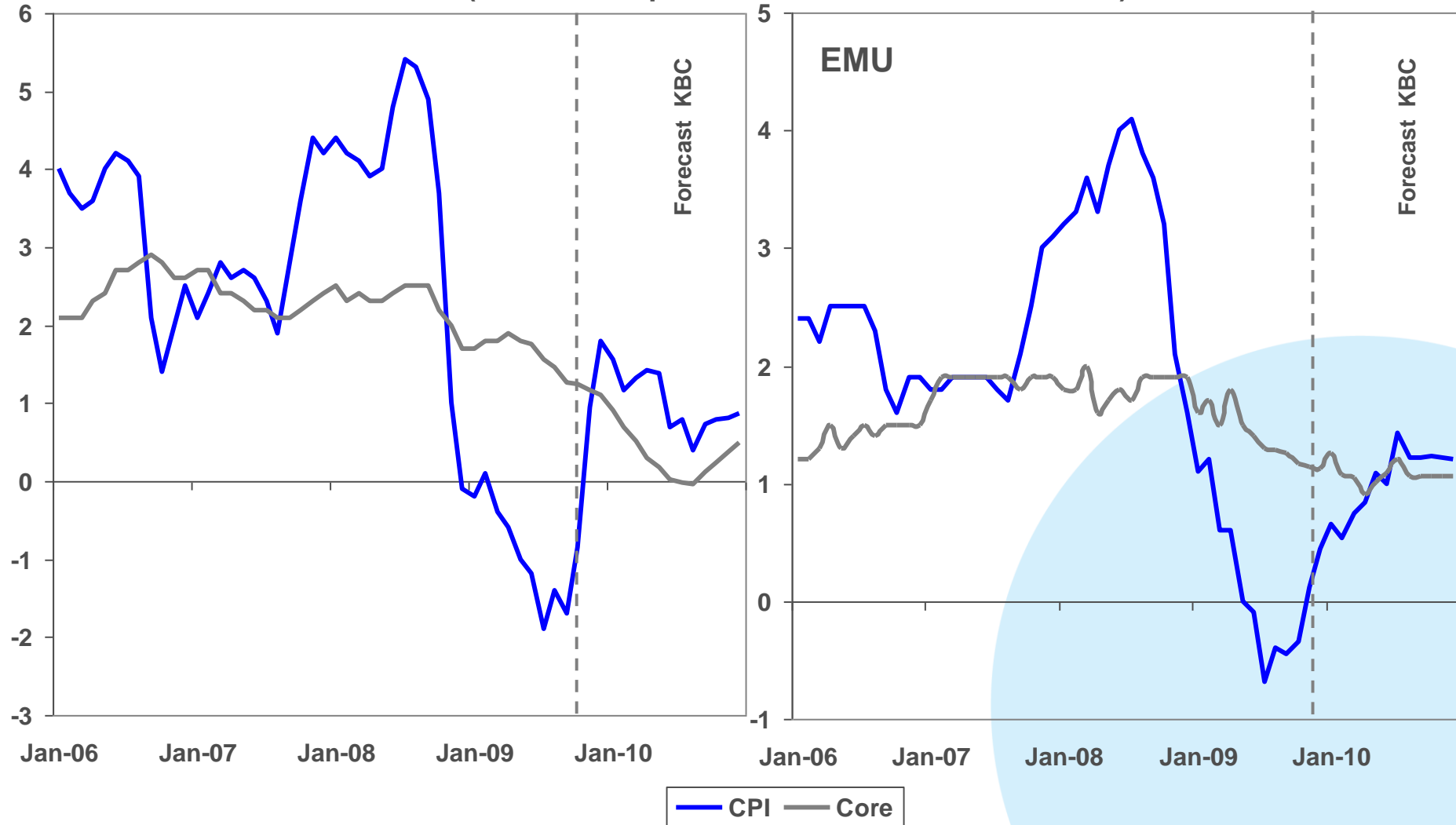
Money growth rates (YoY %-change)



Inflation

Will decline, but no deflation

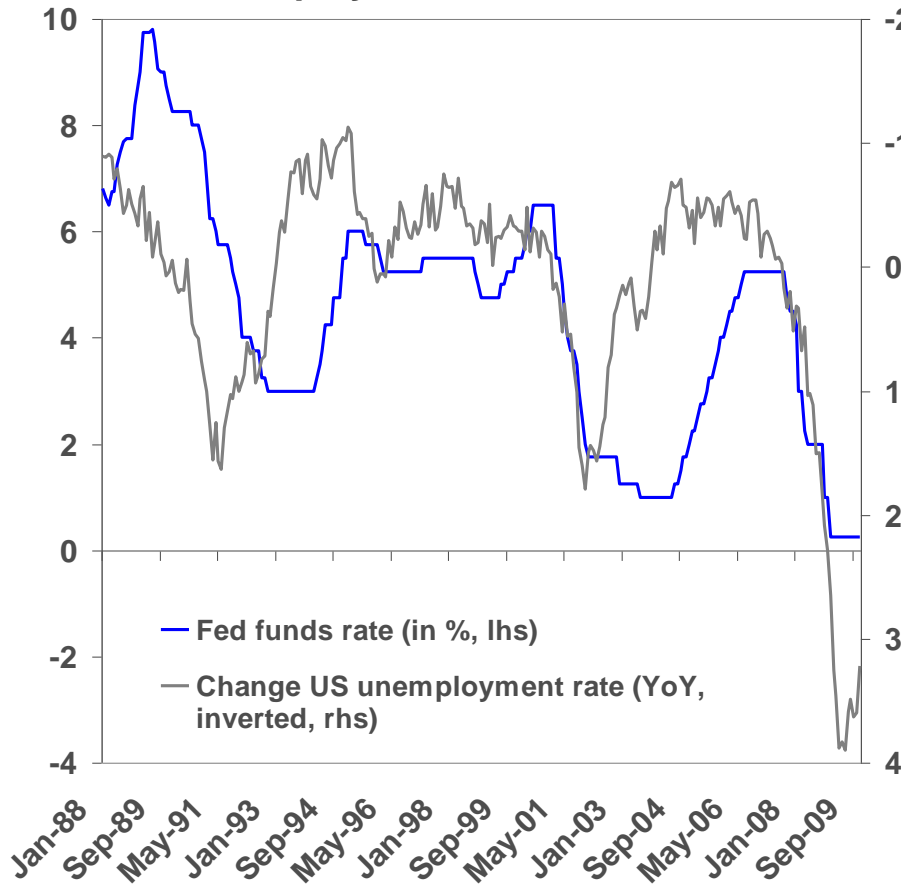
YoY %-change consumer prices
(forecast: oil price = stable at ca. 75 USD/barrel)



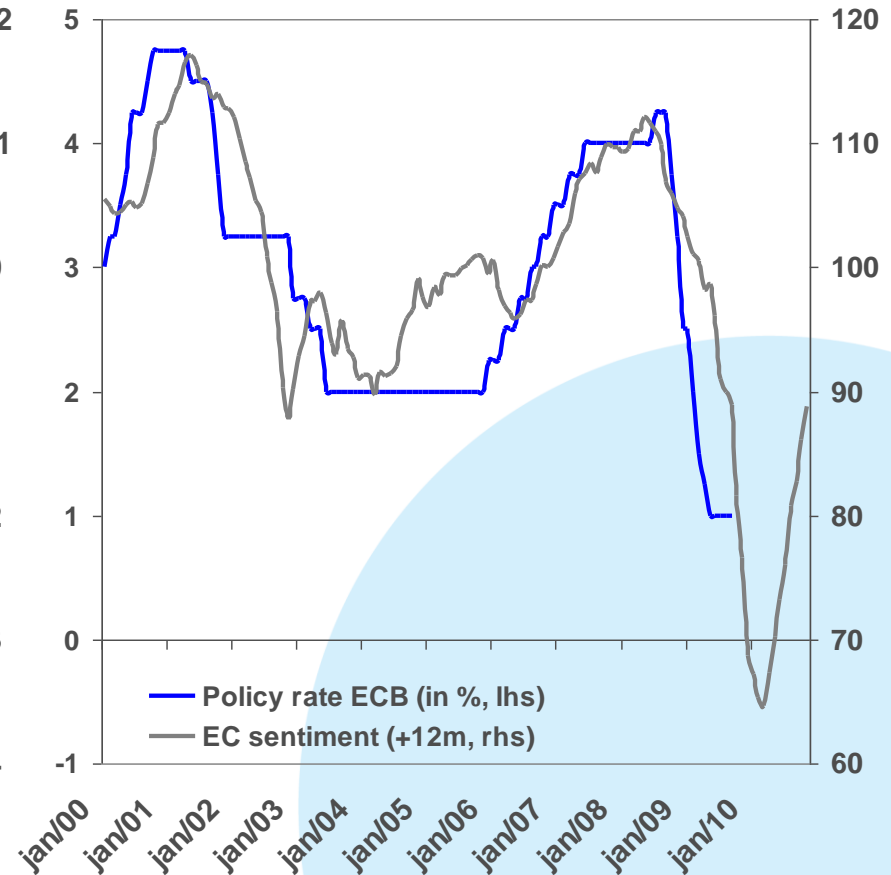
Cheap money

Monetary policy will remain loose

Fed does not tighten policy before unemployment starts to decline



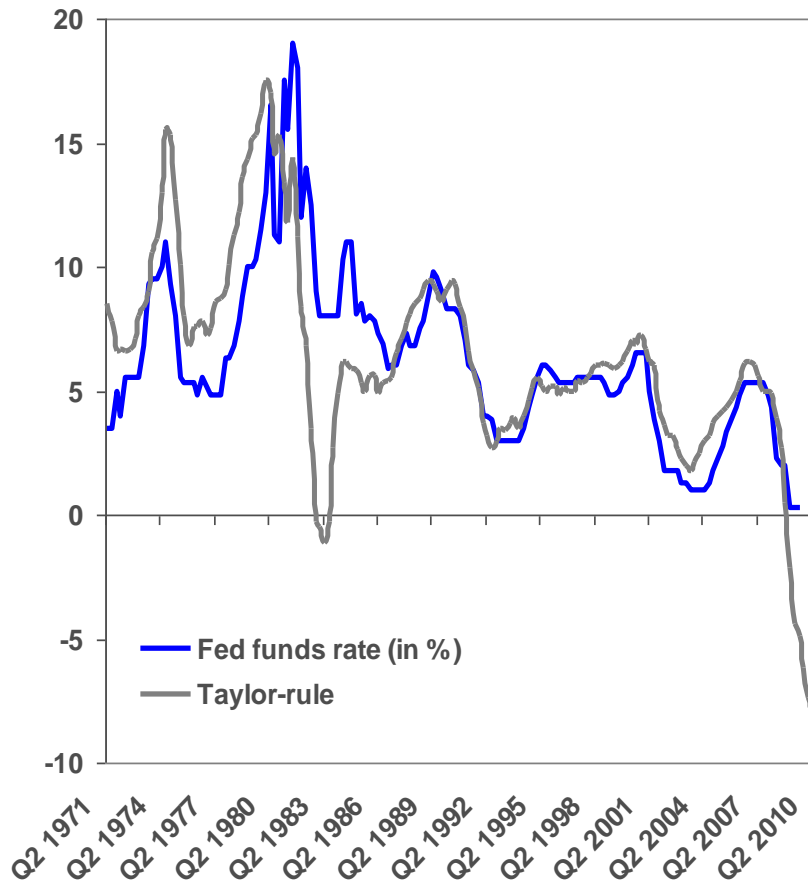
ECB still in 'wait-and-see' mode



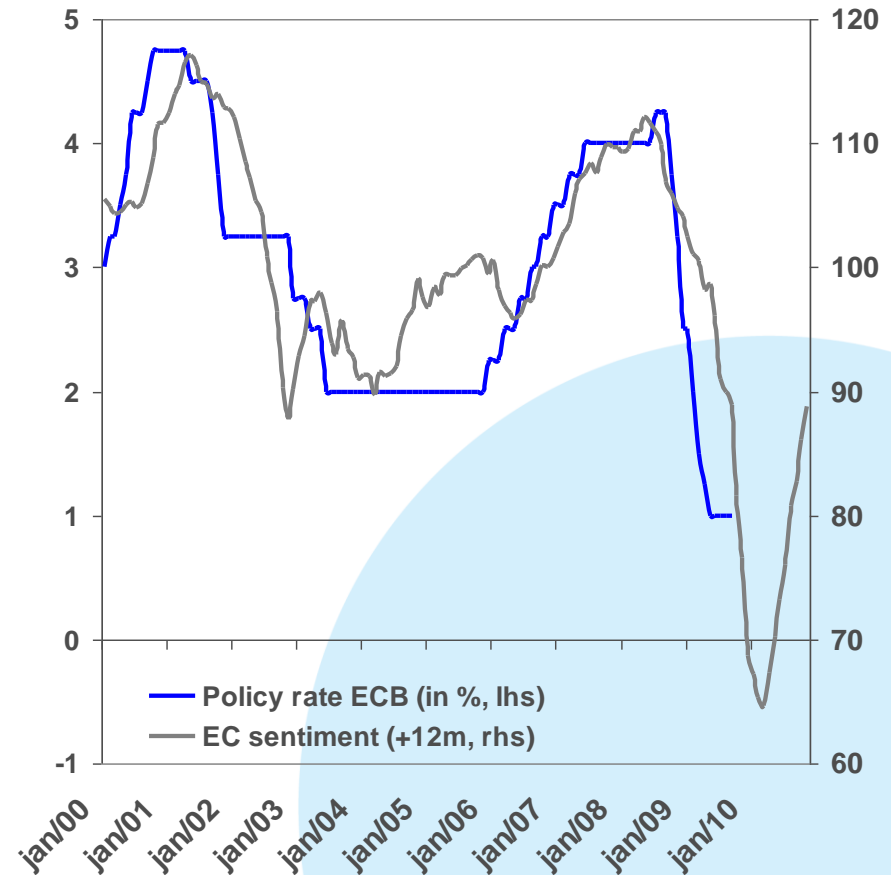
Cheap money

Monetary policy will remain loose

Fed does not tighten policy before unemployment starts to decline



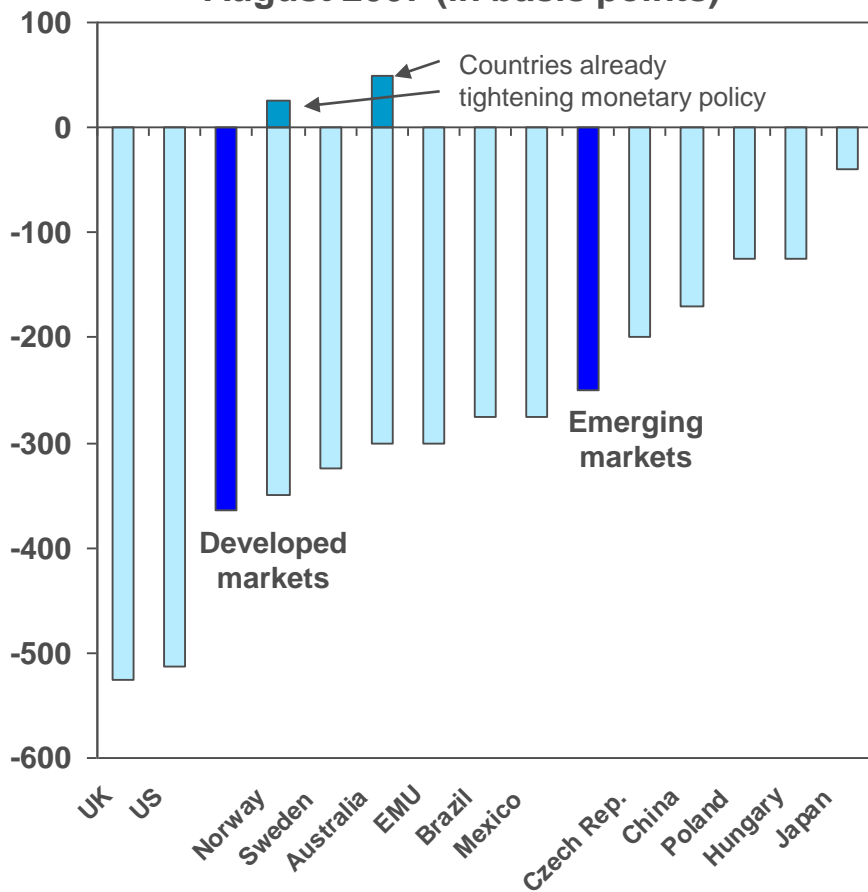
ECB still in 'wait-and-see' mode



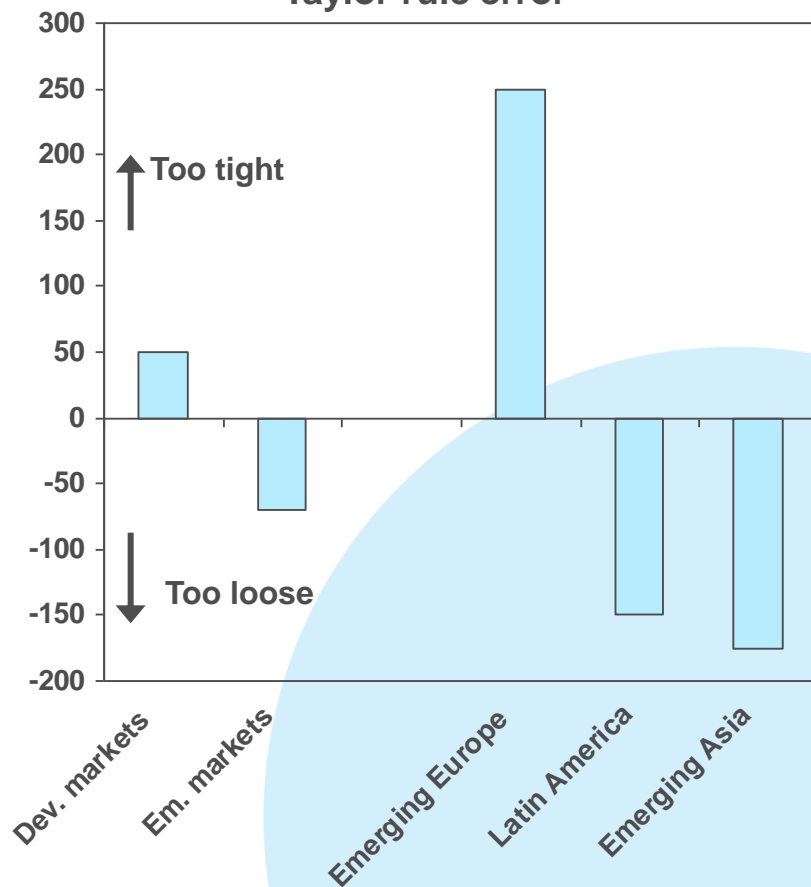
Cheap money

... too loose for emerging markets

Change Central Bank's policy rates since August 2007 (in basis points)



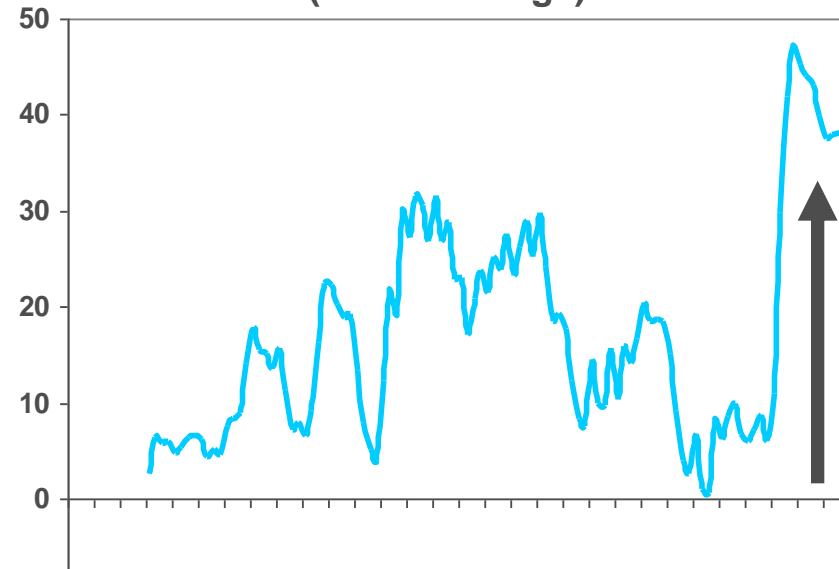
Taylor rule error



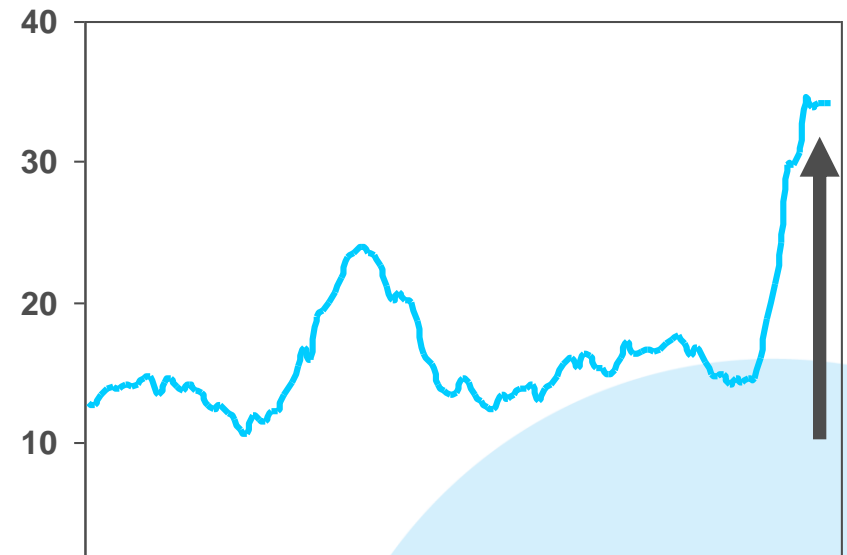
Corporate spending

Two speed world

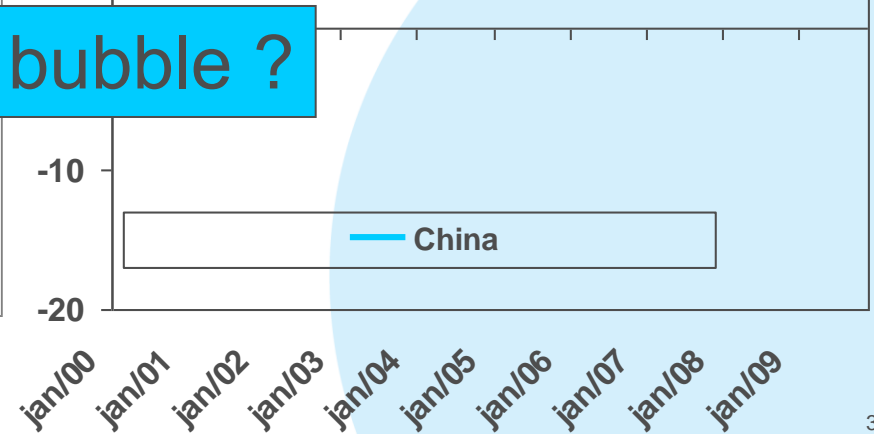
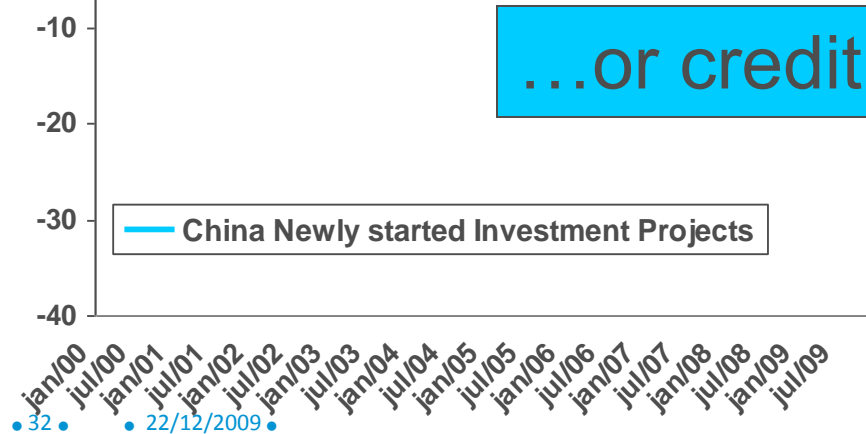
Capital expenditure
(YoY %-change)



Bank loans to the private sector
(YoY %-change)



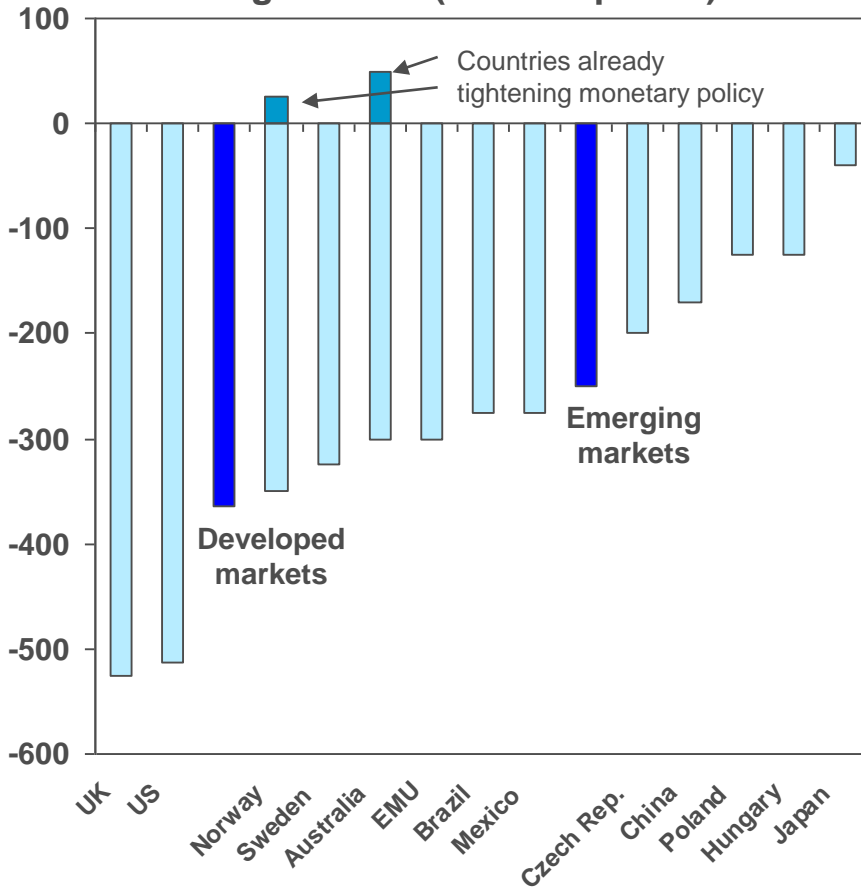
...or credit bubble ?



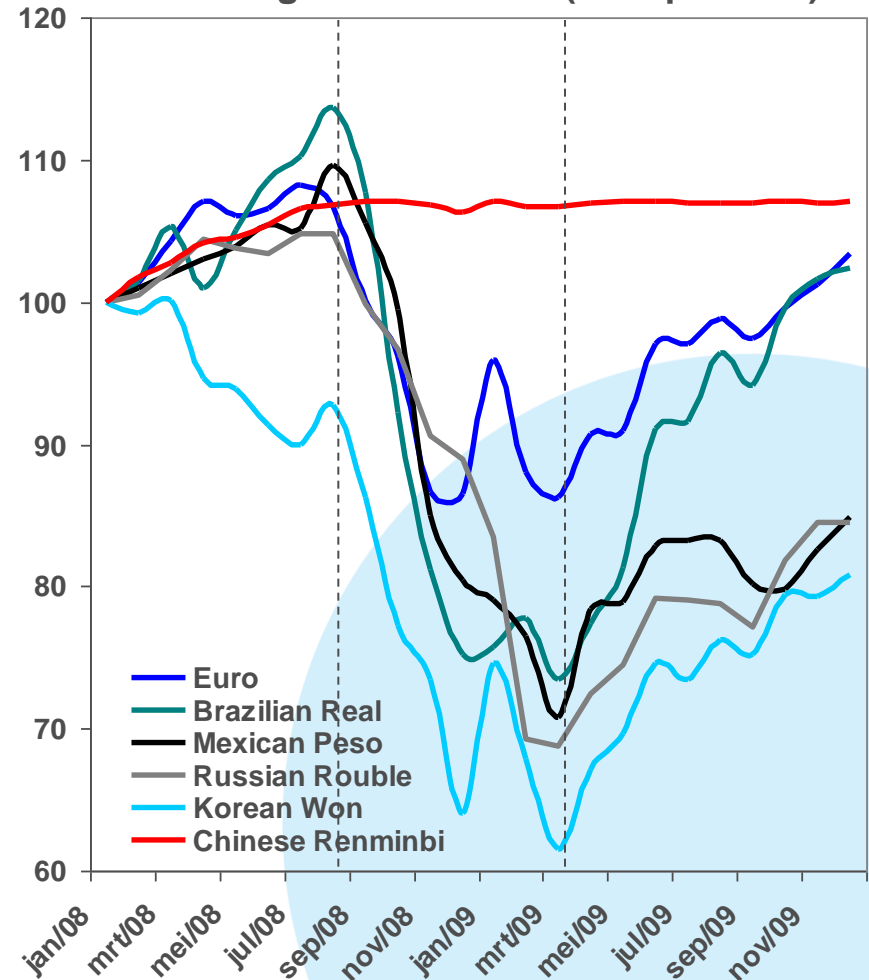
Cheap money

... too loose for emerging markets

Change Central Bank's policy rates since August 2007 (in basis points)



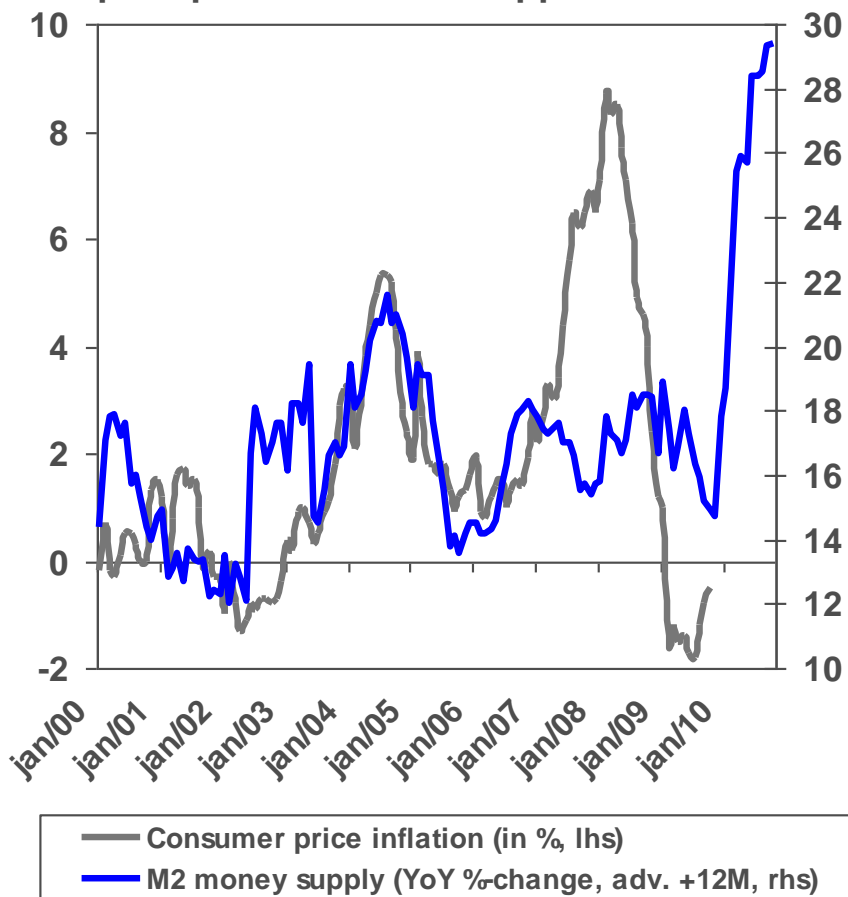
Exchange rates to USD (USD per XXX)



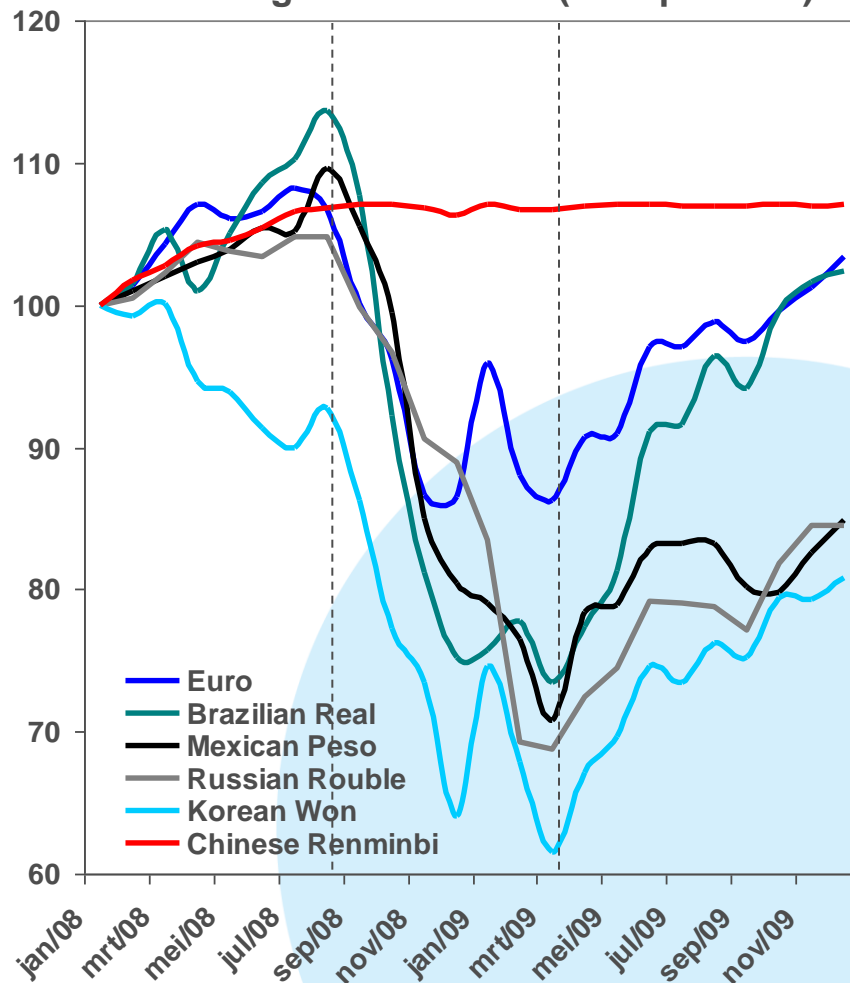
Cheap money

... too loose for emerging markets

Pick-up of inflation in China should prompt return to RMB appreciation



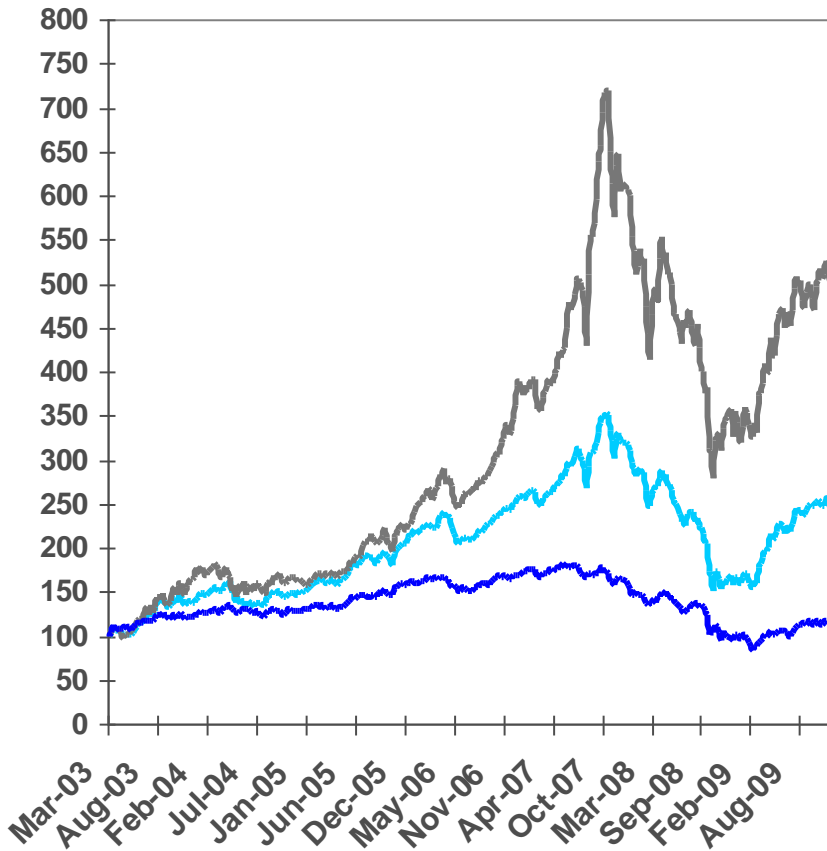
Exchange rates to USD (USD per XXX)



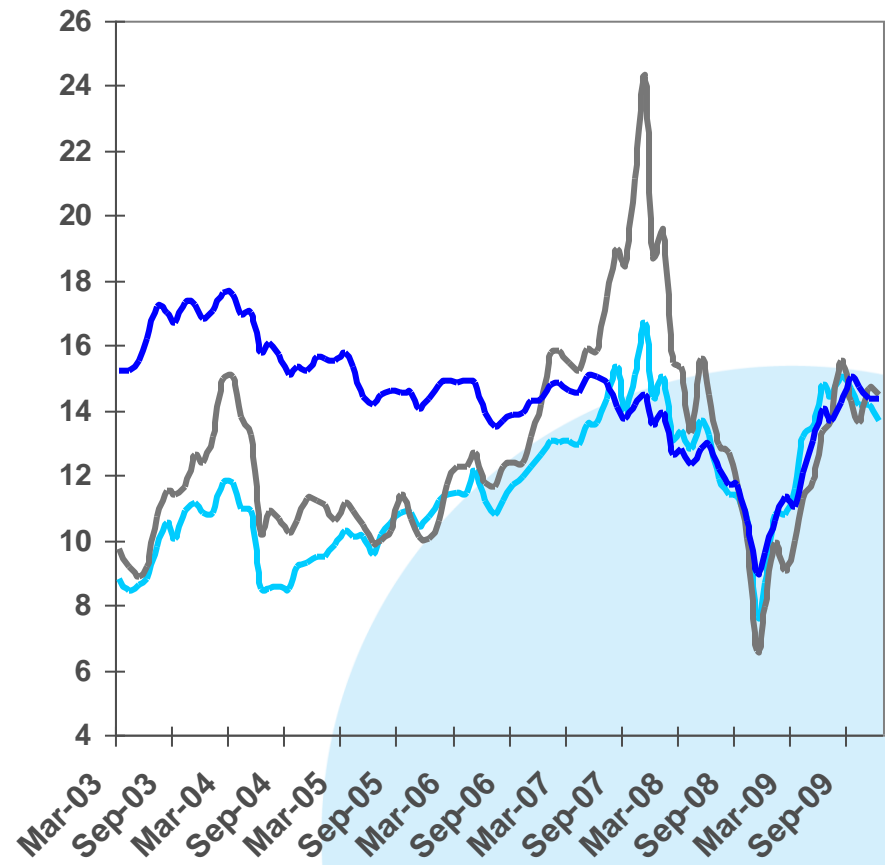
Heading for an (Asian) equity bubble ?

Not yet, but beware...

Total return in EUR
(MSCI, March 2003 = 100)

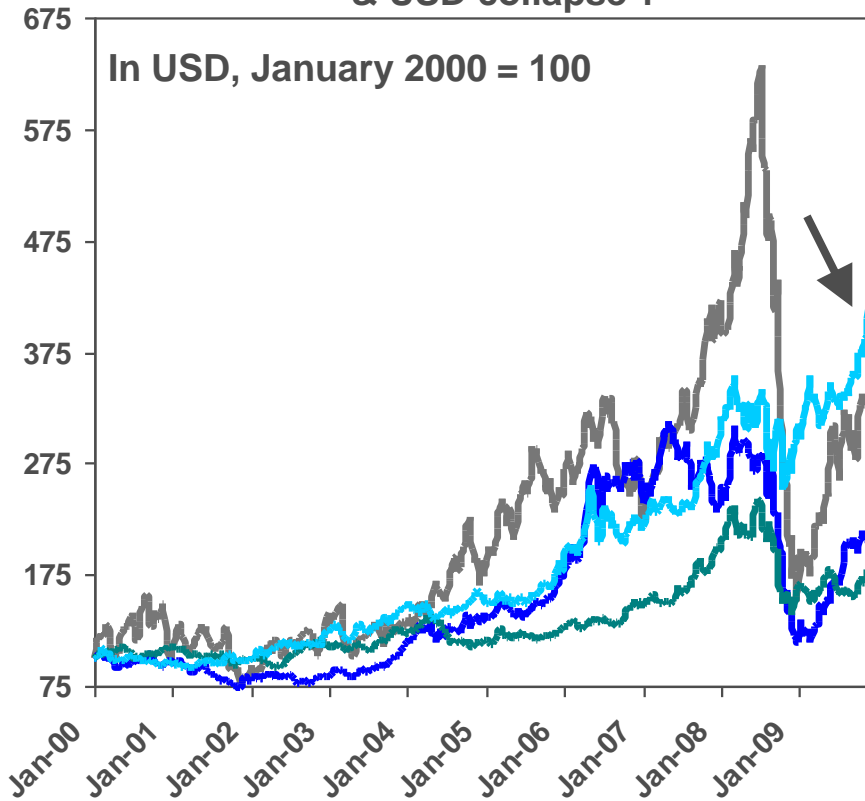


Forward PE-ratio

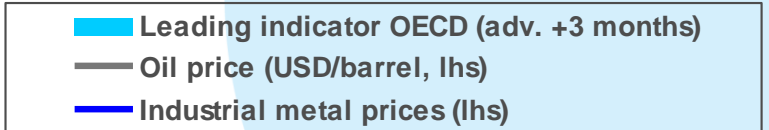
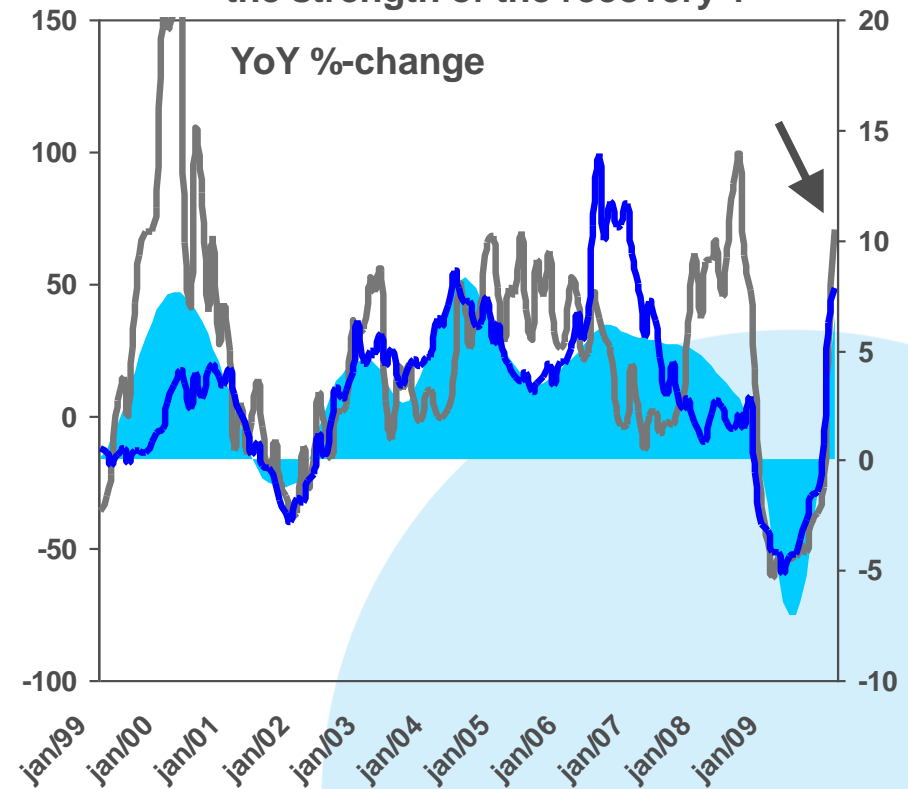


Or another commodity bubble ?

Gold price: concern for runaway inflation & USD collapse ?



Oil & metal prices: overly optimistic about the strength of the recovery ?

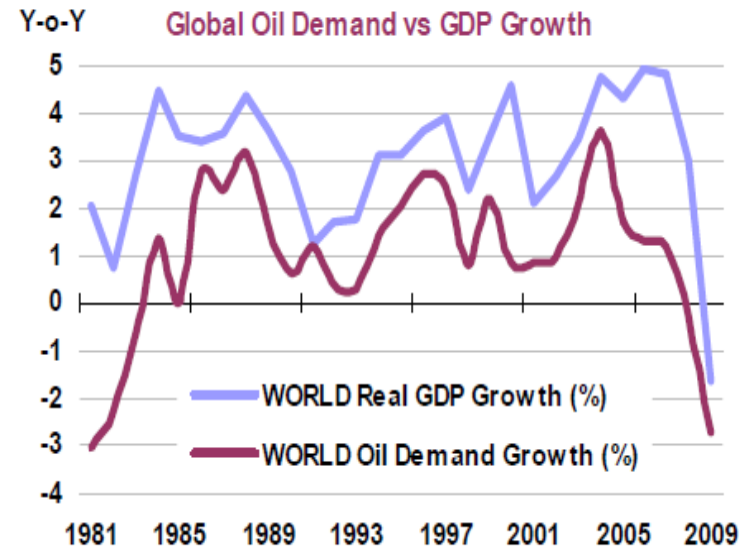
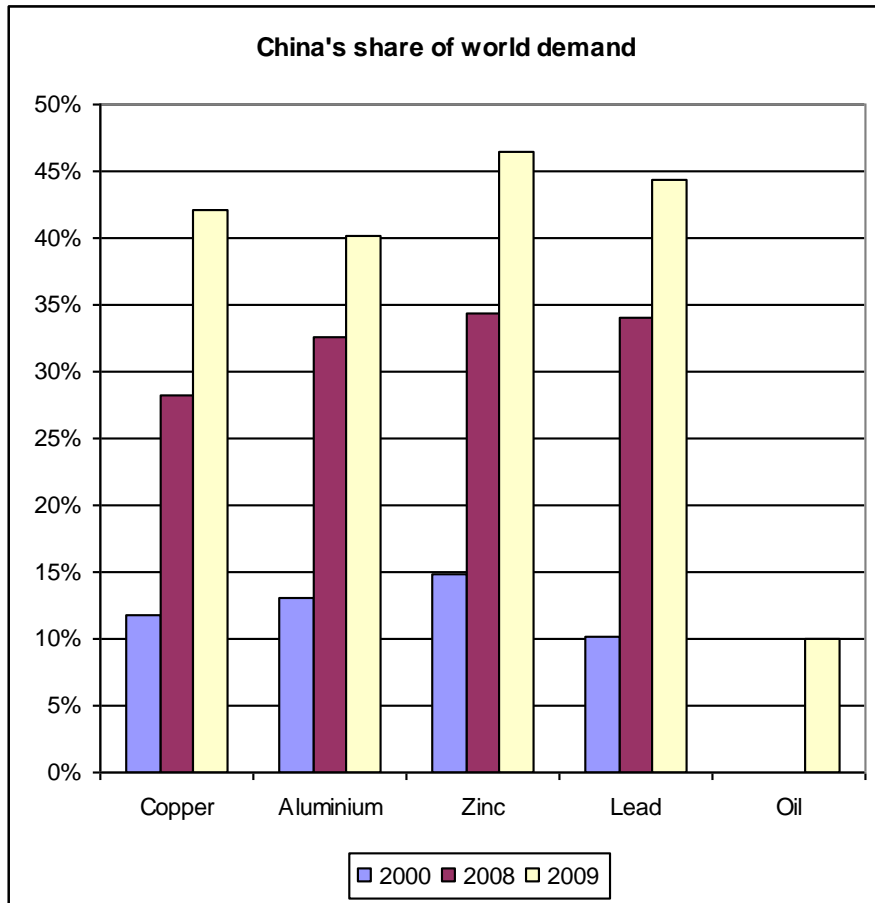


Or another commodity bubble ?

Too much too soon

China is gaining weight

.....but global demand remains cyclical



- Metals demand contracted by 9% in 2009 and is expected to reach 2008 levels not before 2011.
- Global growth of >2% is needed for metals demand to grow.

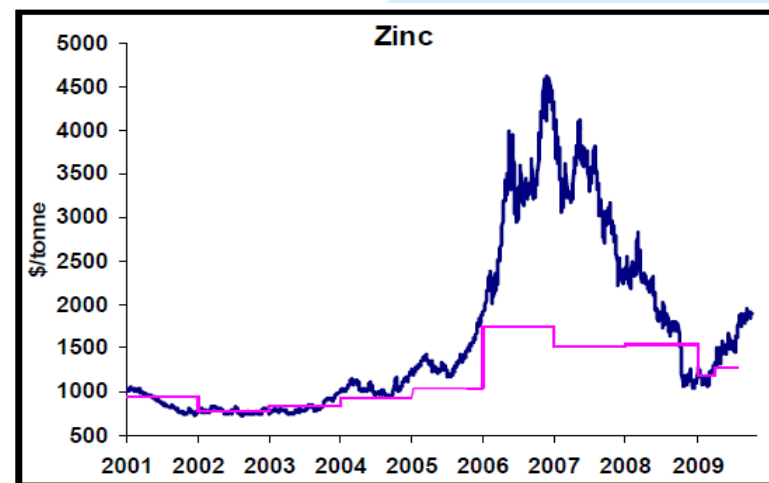
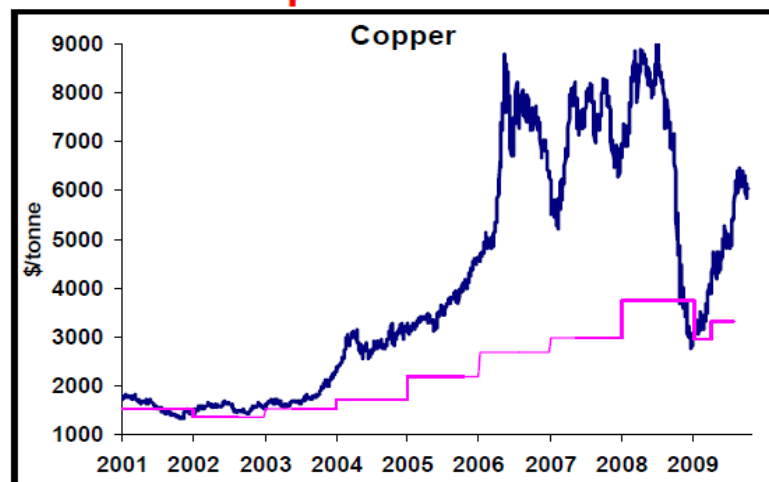
Or another commodity bubble ?

Too much too soon

Inventories are high and still rising but prices are already above marginal cost

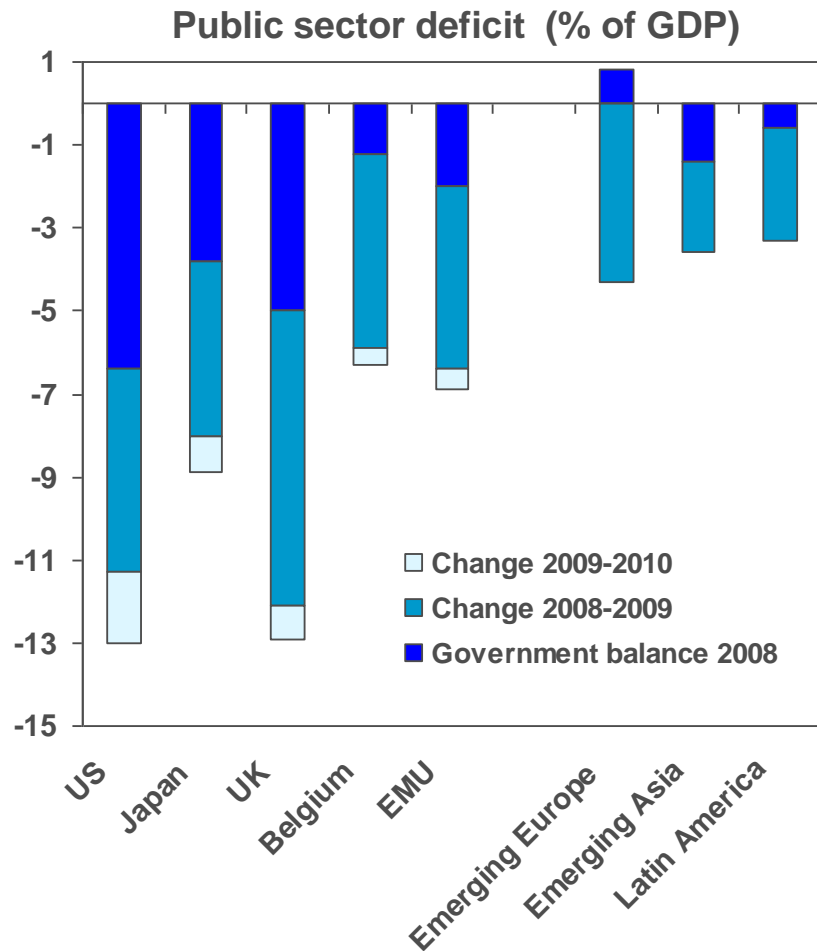
Western World stocks in weeks of consumption

	Current	5y AVG
Aluminium	14.3	6.8
Copper	3.9	2.8
Nickel	13.2	5.7
Zinc	8	5.7
Oil	1.2	1.05
Source : Brook Hunt		

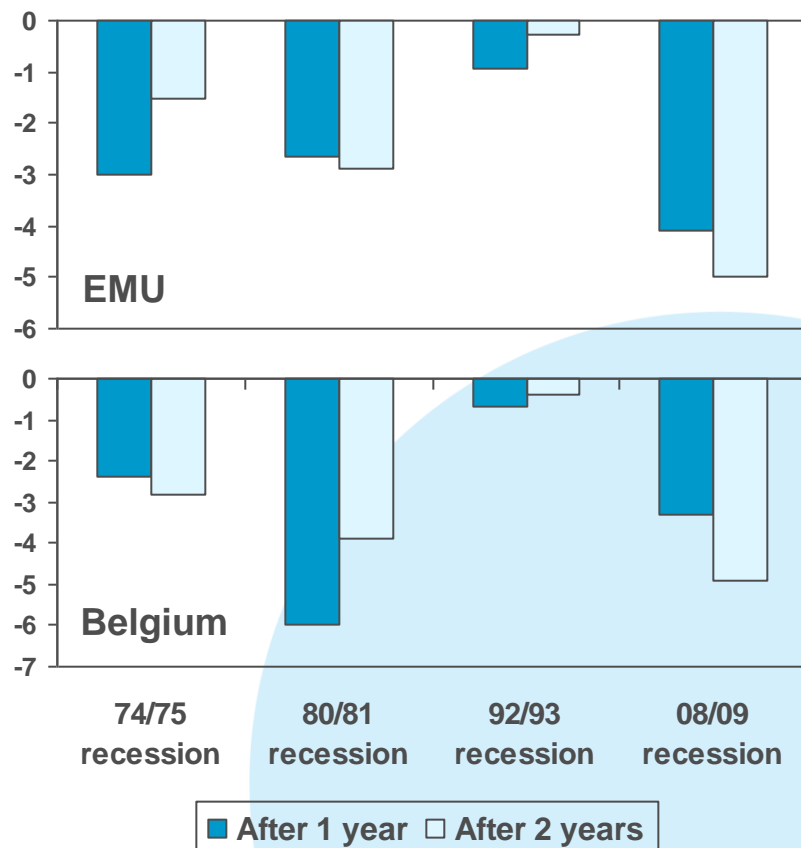


Continued fiscal policy support

Damaging public finances



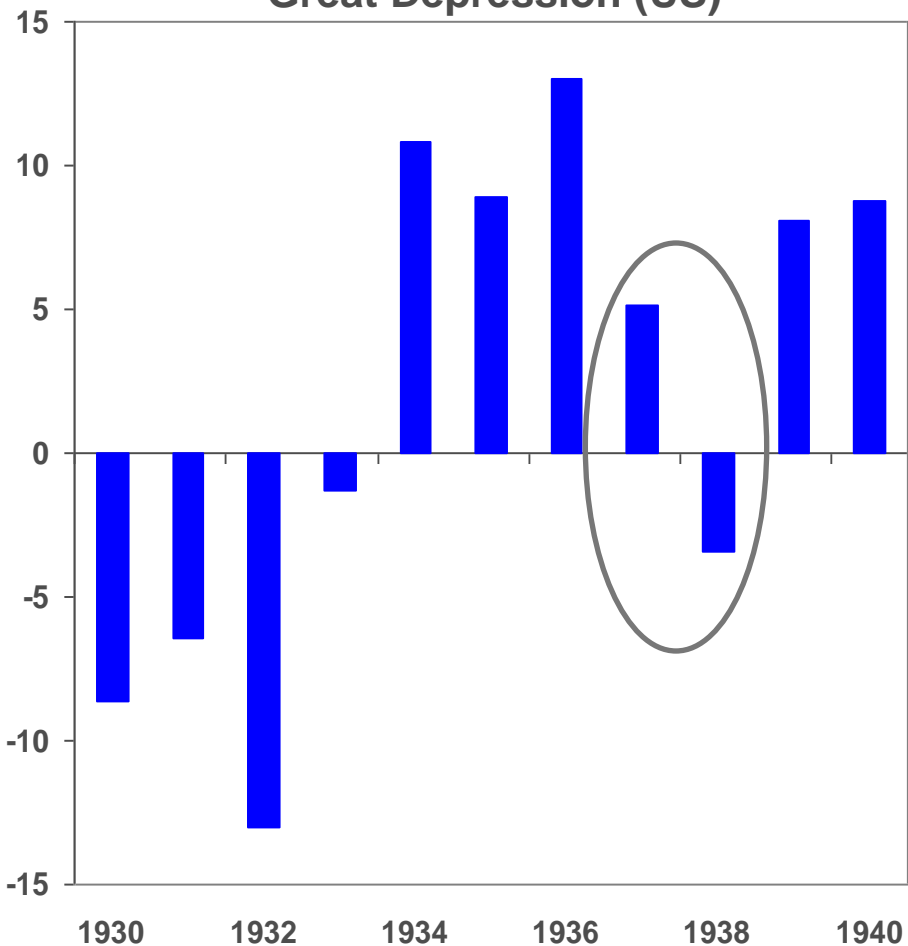
Increase in public deficit across recessions
(%-points of GDP)



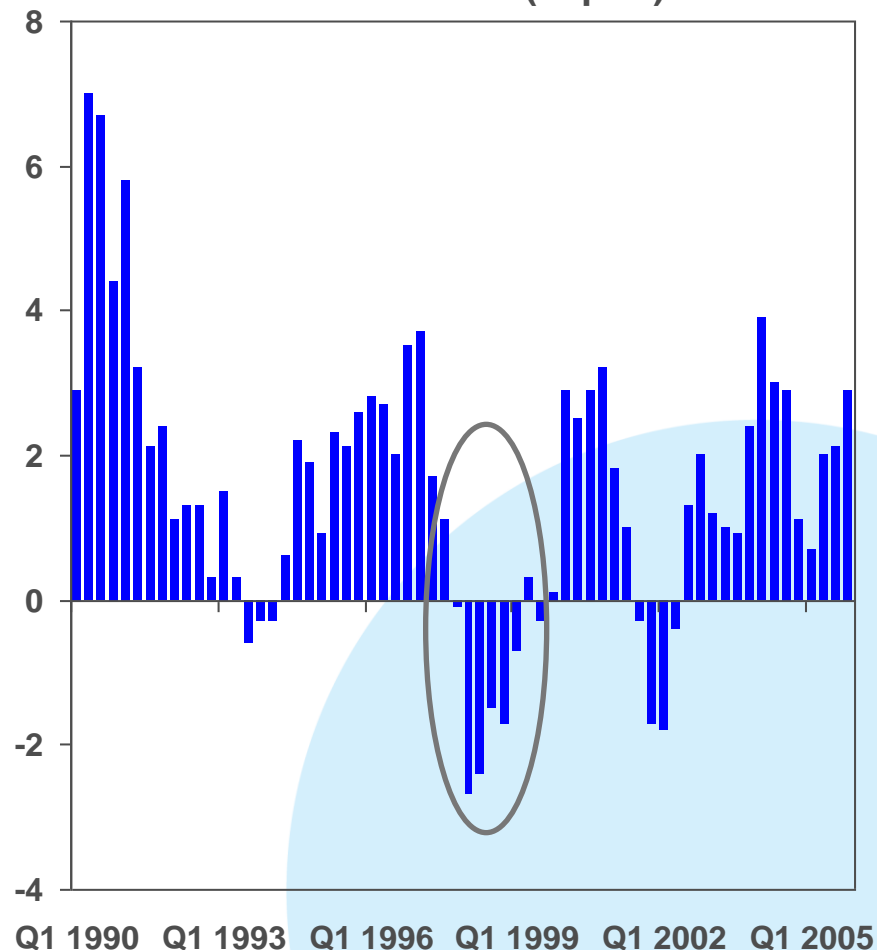
Continued fiscal policy support

Risk: too early removal of stimulus

Great Depression (US)



Lost decade (Japan)

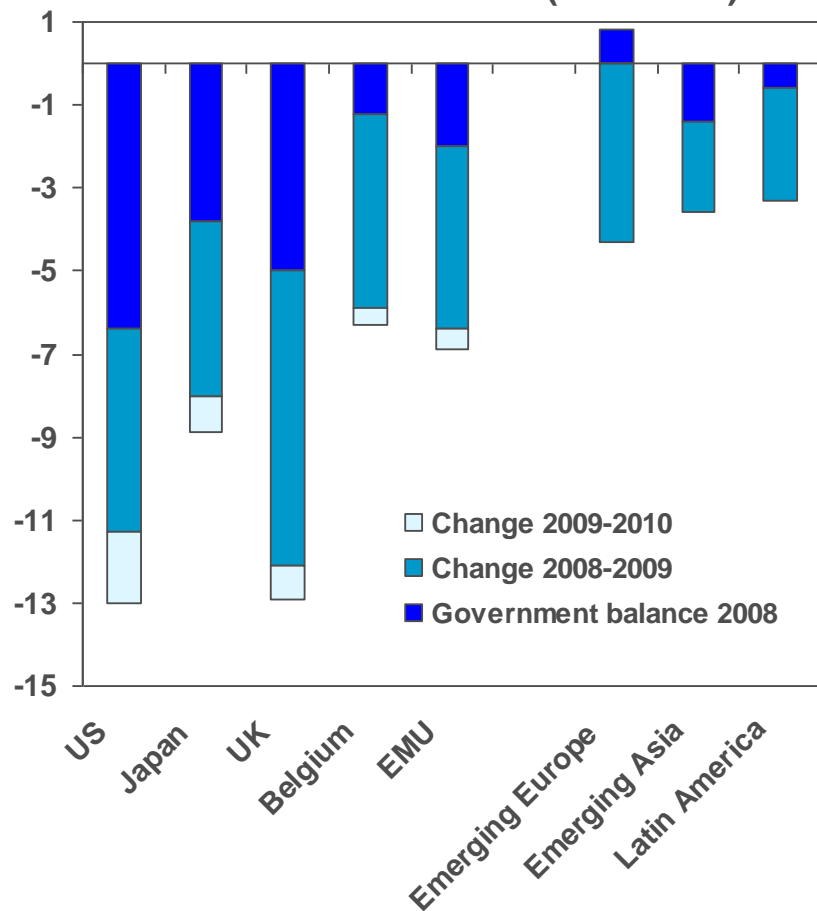


Real GDP-growth, in %

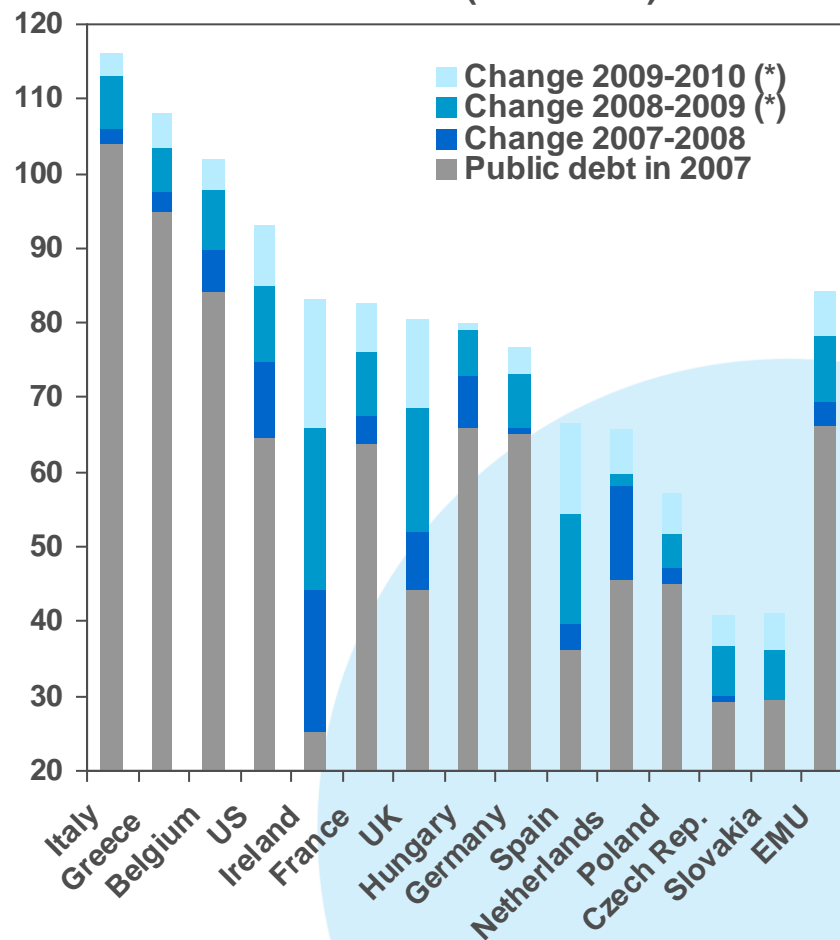
How sustainable ?

Need for credible medium-term consolidation

Public sector deficit (% of GDP)



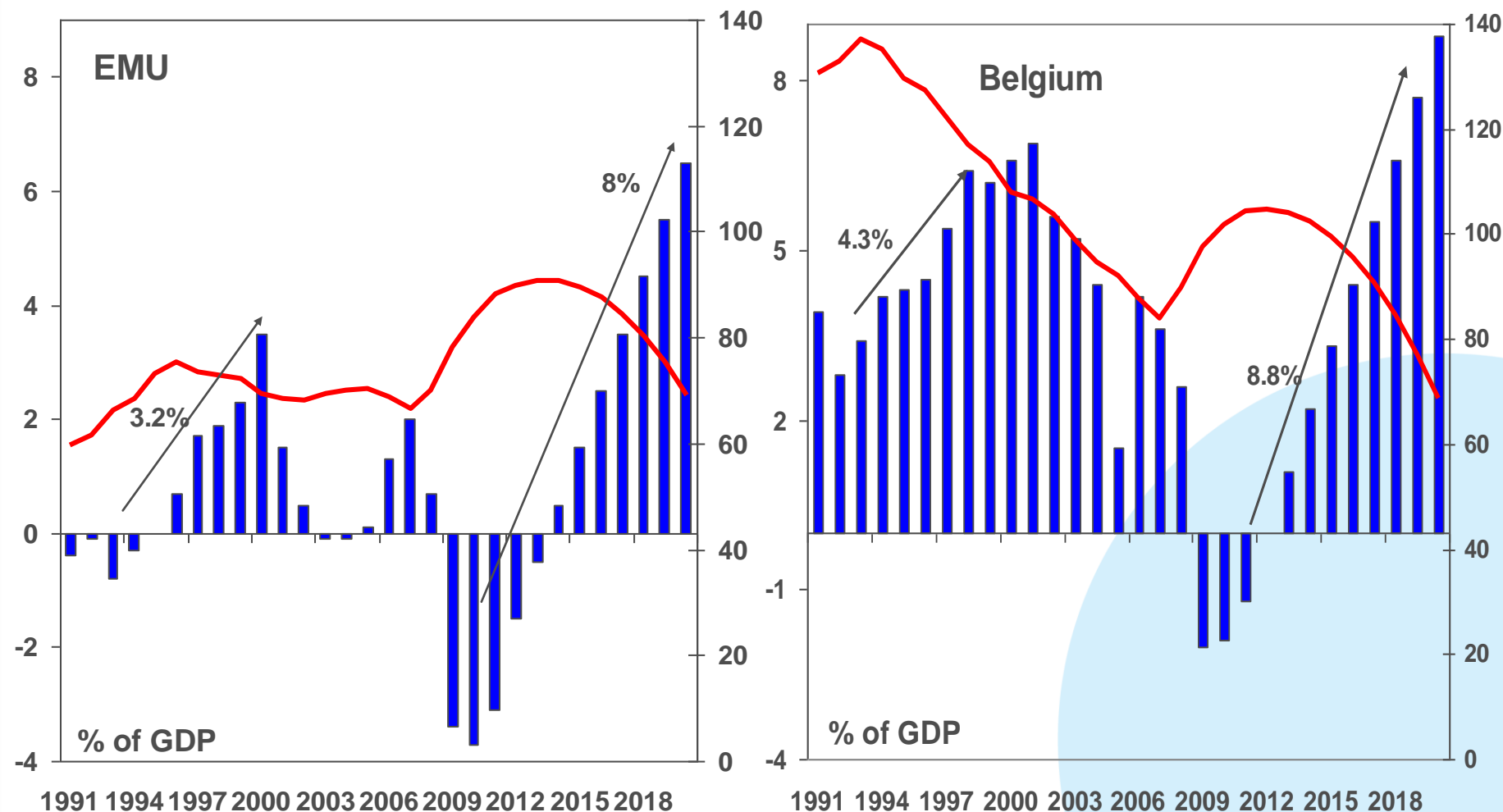
Public debt (% of GDP)



(*) Forecast EC

How sustainable ?

Need for credible medium-term consolidation

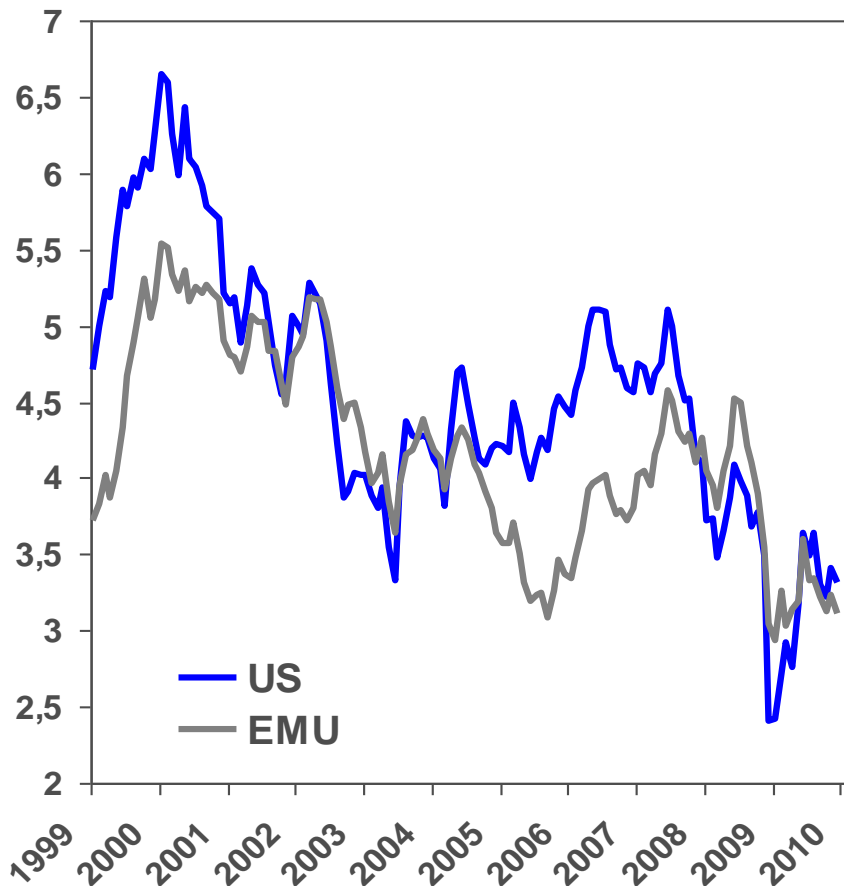


■ Primary balance
 — Public debt

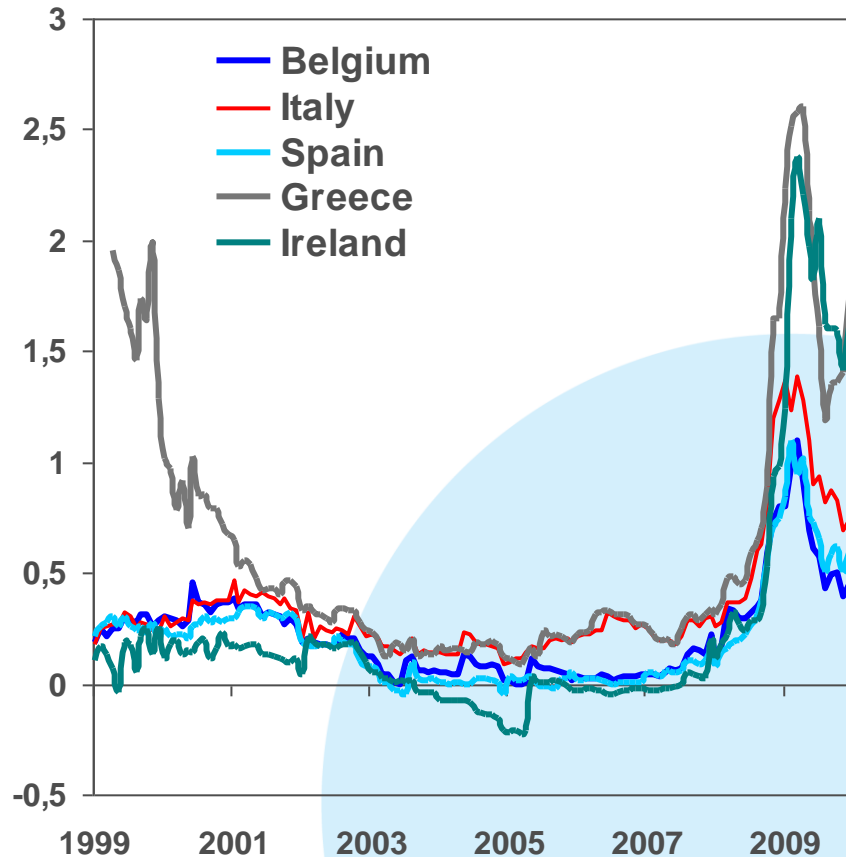
Bond markets not too worried yet

But higher intra-EMU spreads are here to stay

Long-term interest rates
(10-year gov. in %)



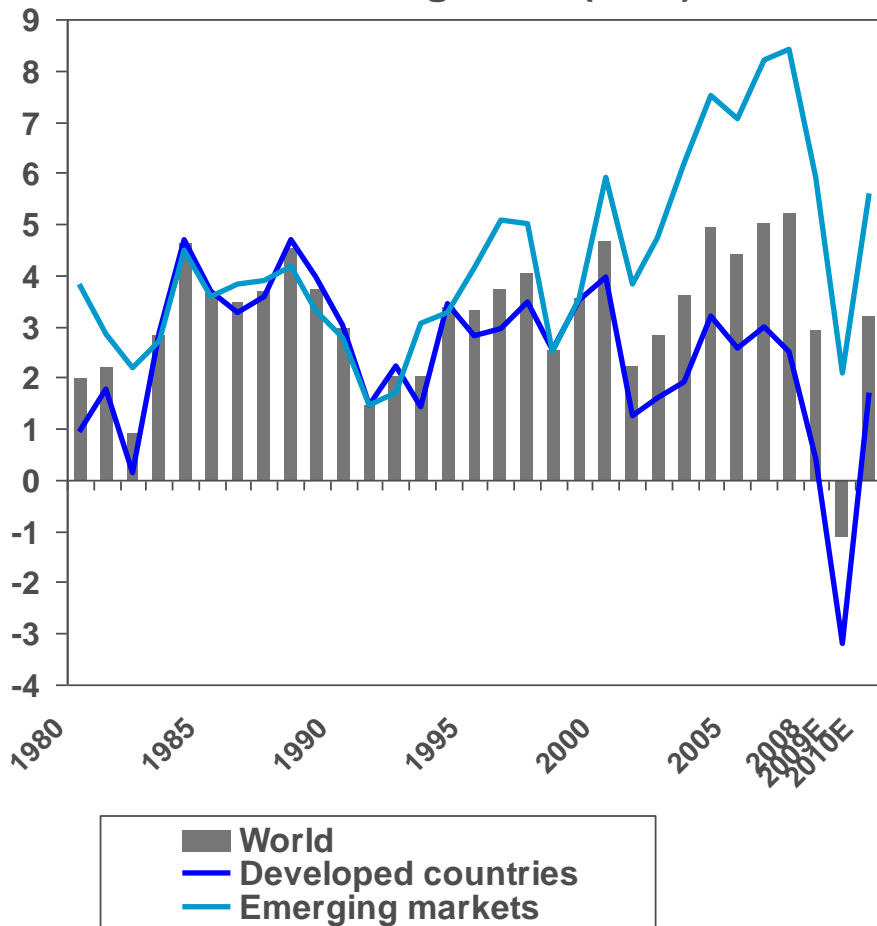
Interest rate spread EMU
(difference with 10-year gov. Germany)



Economic forecast KBC

Real GDP growth

Real GDP-growth (in %)



Real GDP-growth (in %)	2007	2008	2009	2010
US	2.0	1.1	-2.5	1.7
EMU	2.7	0.7	-3.7	1.5
- Belgium	2,6	1.1	-3.0	1.7
Emerging Asia	10.6	6.7	5.4	7.2
- China	13.0	9.0	8.4	9.1
Emerging Europe	7.2	4.9	-6.5	2.3
Latin America	5.7	4.0	-2.3	2.7
World	5.2	2.7	-1.0	3.4

Financial outlook KBC

	December 7th 2009	+ 12 months
Central bank policy rates (in %)		
- Fed	0.25	0.25
- ECB	1.00	1.00
10-year gov. bond yield (in %)		
- US	3.45	3.15
- EMU	3.20	3.05
EUR/USD	1.48	1.40
Oil price (USD/barrel)	78	80

Summary

- Base scenario 2010:

- Global recovery continues (no double dip)
 - but weak and vulnerable in developed markets
 - much stronger in emerging markets (Asia)
- Monetary and fiscal policy remain globally supportive
- Resulting in a globally benign financial environment

- Major threats:

- Surprisingly strong growth momentum in the short run
 - generating inflation and asset bubbles in emerging markets
 - and/or earlier than expected removal of monetary and fiscal stimulus in developed markets
- Labour market recovery weaker than anticipated, reigniting deflation risks