**How durable are the US and Eurozone recoveries? Are Emerging Markets a threat?**

***By Mr Carl Astorri***

Review by Calvin KJ Tay:

After the global financial crisis in the 2008-2009 period, economic recoveries and conditions of the USA and Eurozone have been a popular topic amongst many. In recent years, the problems and difficulties that emerging markets are facing and their effects on the global economic outlook has proved to be another cause of concern. On the 8th of October 2013, UCL Economist's Society welcomed Mr Carl Astorri, a Senior Economist at Oxford Economics, to give an interesting and comprehensive talk with regards to the durability of the US and Eurozone recoveries, and at the same time evaluate the concern of whether emerging markets are threats.

To begin with, Mr Astorri touched on the recent shutdown of the US government and its implications to the economy. He predicted that with every week that the US government stay offline, it would cost a 0.1% of the GDP, which in turns has its own negative and essentially contractionary impact on the US recovery. However, what he failed to mention the possible long-run implications of this shutdown of the US government which could be much more devastating to the global economy. With the budget yet to be passed and the US debt soaring, we can never be too sure that the government will not default its debt. Though this can be seen as a long shot, the possible outcome is way too impactful to be neglected. Firstly it must be noted that the US government securities take up more than 30% of the collaterals used by financial institutions worldwide; investment banks use American Treasuries as collateral to borrow in the $2 trillion "tri-party repo" market, a source of overnight funding. A default in the US debt can in turn lead to a global financial crisis as detrimental as the 2008 Lehman Brothers collapse since lenders will demand for more or different collateral. Regardless of which, the short-run impact of the US government shutdown which Mr Astorri discussed on is much more applicable and foreseeable in the near future.

Following up, he analysed the different components of US's economy, explaining their implications and durability of their recovery. Mr Astorri touched on the slowing down of the consumers' spending, how austerity is easing back, big shift in valuation of the housing market, increase in competitiveness of the US manufacturing market et cetera. Though much technicality was touched on and less insights on this, it must not be forgotten that these different components are essential in understanding how the economy expands or contract. For example, the shift in valuation of the housing market: Mr Astorri emphasized that the recovery of the housing market leads to an increases the wealth and thus consumer spending, aiding the economic recovery. This is a psychological factor that cannot be neglect. In addition, it must be known that the 2008 housing bubble and the subsequent bursting of it is one of the key reasons that subprime lenders fell which ultimately led to the collapse of Lehman Brothers and the global financial crisis.

Despite being largely serious throughout the duration of the talk, Mr Astorri revealed a humourous side when he touched on the year 1994 and briefly mention that then, Lion King was the UK's most popular movie and Michael Schumacher won his first Formula 1 championship. His intention was to lead us into the idea of using current models and events to simulate past economic conditions as a means of analysis and forecast which he illustrated using the World Wide Web conference and the dot-com bubble that started in 1994. I found this really insightful as to how similar economics as a social science is similar to laboratory science when using known facts to postulate a theory and prediction for future events in the respective fields.

Mr Astorri then moved on to the Japan's economy and how the famous "Abenomics" as formulated by Prime Minister, Shinzo Abe, aims to revive the sluggish economy with '3 arrows'. There are, fiscal stimulus, aggressive monetary easing and most important of all (as emphasized by Mr Astorri), structural reforms. Due to pre-existing fractures in Japan's economy, counter-cyclical measures taken will not be fruitful as seen from history. As such, structural reform has become one of the main pillars of Abenomics as a long-term solution to repair these 'fractures'. Some of the possible measures mentioned include: Easing of immigration policy, boosting labour force, productivity and capital. Though Mr Astorri did not dwell further into this topic, I remain sceptical that a deep fault in the economic system of a nation can be fixed overnight. Solutions such as boosting labour force, productivity and capital might seem easy on paper, but it is in fact quite hard to fulfil in the real world, especially given Japan's current situation: rapidly ageing society and the welfare-related spending consumes almost a third of the general budget. Therefore, for Japan to get out of its current slump in the long run, I feel that it is necessary for a much wider of coverage in their policies and not just in the economic aspect.

Still on the topic of Japan's economy, Mr Astorri then moves on to talk about the impact of a weak yen in improving the economy. The last part of Japan's economy that Mr Astorri touched on was with respect to a rise in corporate savings. He argued that instead of saving, firms should investment to aid the recovery. Personally, I feel that there is two ways this can be viewed: Firstly, it coincides with the paradox of thrift that saving is, at its best, detrimental to the GDP of a state as they are essentially potential investment and consumption forgone. However, another school of thought believes that saving for any better or more fruitful opportunity in the future will have more potential gains than investing and spending on whatever is available currently. As such, ultimately it is up to the firms' discretion to make investment decisions based on the current economic condition.

Moving on, Mr Astorri then analysed the Eurozone economies. He starts off with some background information backed by reliable data: that the Eurozone has emerged from the longest recession in decades. It is coming up from a localized bottom, after the financial crisis and the Eurozone fiscal crisis. Unemployment rate is currently at a dangerously high rate, with up to 50% of the labour force unemployed. This is forecasted to go down in the 2014-2015 period. In addition, restructuring in the Eurozone is far from over, with financial corporations having zero progress in de-leveraging. This applies for non-financial corporations as well as households. Given all these background information, the only conclusion that I can draw from these is that the recovery process in the Eurozone is far from over. As far as durability goes, it is too early to tell. Amid all these technicalities and hard data shown on the screen, Mr Astorri then presented the following challenging and insightful questions to the audience:

1) Will Greece be tempted to leave the Eurozone?
2) Will Portugal need a new credit line? (It looks like Portugal needs another bailout as well)
3) Are funds to re-capitalise banks in place?
4) Should the ECB offset tightening monetary position in the US? (Could put in place tighter measure where credits is still pretty tight)

Mr Astorri then flashed a slide with different graphs on them, each illustrating and predicting the effect on the Eurozone economy if Greece leaves or even hypothetically, the Eurozone cease to exist. In all cases, the GDP will plummet drastically, leaving a shattered economy.

Last but not least, Mr Astorri made use of the final minutes to discuss the cases of emerging economies, and how they are fending in the global arena. By showing us data illustrating the relationship between equity markets in emerging economies versus the S&P500, he explained that emerging economies are suffering due to the rise of global equity market. This subsequently causes a struggling equity market for emergers, as capital will flow into developed nation. The second reason is the threatening emerging markets due to the rise in global interest rates. This chains to a rise in global bond yield which implicates the emerging economies. Mr Astorri reckons that countries with institutional weakness are hit more badly due to obvious reasons. Moving to the last case study, Mr Astorri talks about the high risk incurred by China because of the large amount of national debt due to a high level of lending from regional government and spending on various funds. Being one of the most conspicuous among the emerging economies, Mr Astorri express the concern of how this might affect the world economy.

To conclude, it is evident based on the amount of insights and facts provided by Mr Astorri during this hour-long talk that much light was shed for the audience with regards to the topic. As Mr Astorri did not spoon-feed all the information and answers to the audience, I find this particularly intriguing as it leaves a space for our own thinking and analytical skills to work on. All in all, I am sure that those that went for the talk would have found Mr Astorri's array of hard data and professional insights really useful in explaining the state of the world's economy. Mr Astorri is truly an astounding economist and those that missed the talk should check out his articles online. Finally, I would like to thank Mr Astorri for gracing UCL Economists' Society with his time, presence and valuable insights.