



A PRIMARK Company

The Foreign Outlook: New Economy Hopes, Old Economy Problems

presented by
Andrew Hodge

presented to
FTA Revenue Estimating Conference
Sept 2000

800 Baldwin Tower
Eddystone, PA 19022
Phone: (610) 490-2744
Fax: (610) 490-2770
Email: karl@wefa.com

Review of Recent Events



U.S. Fed has been raising rates. It's the same story in Europe and Canada.

Oil and commodity prices, except Ag, are generally rising, may threaten Europe/Asia

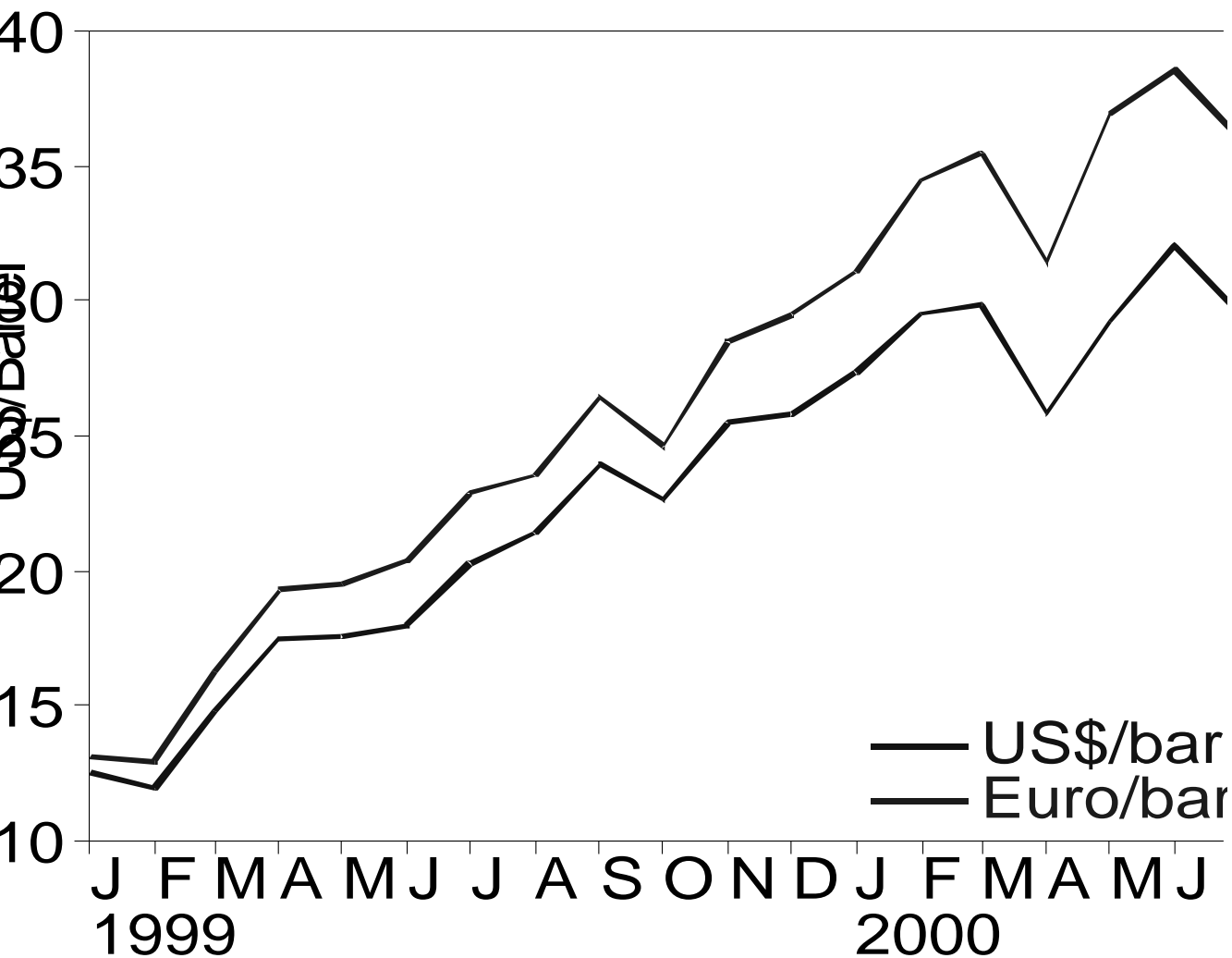
Greatest concerns: oil, equity market volatility

Asia is growing rapidly — even Japan is growing

Russian economy is doing “okay”

Only Latin America has serious problems, excluding Mexico which is more tied to the U.S.

Oil Price in Dollars Hurts Euro Price Hurts Even More



Euro/Barrel

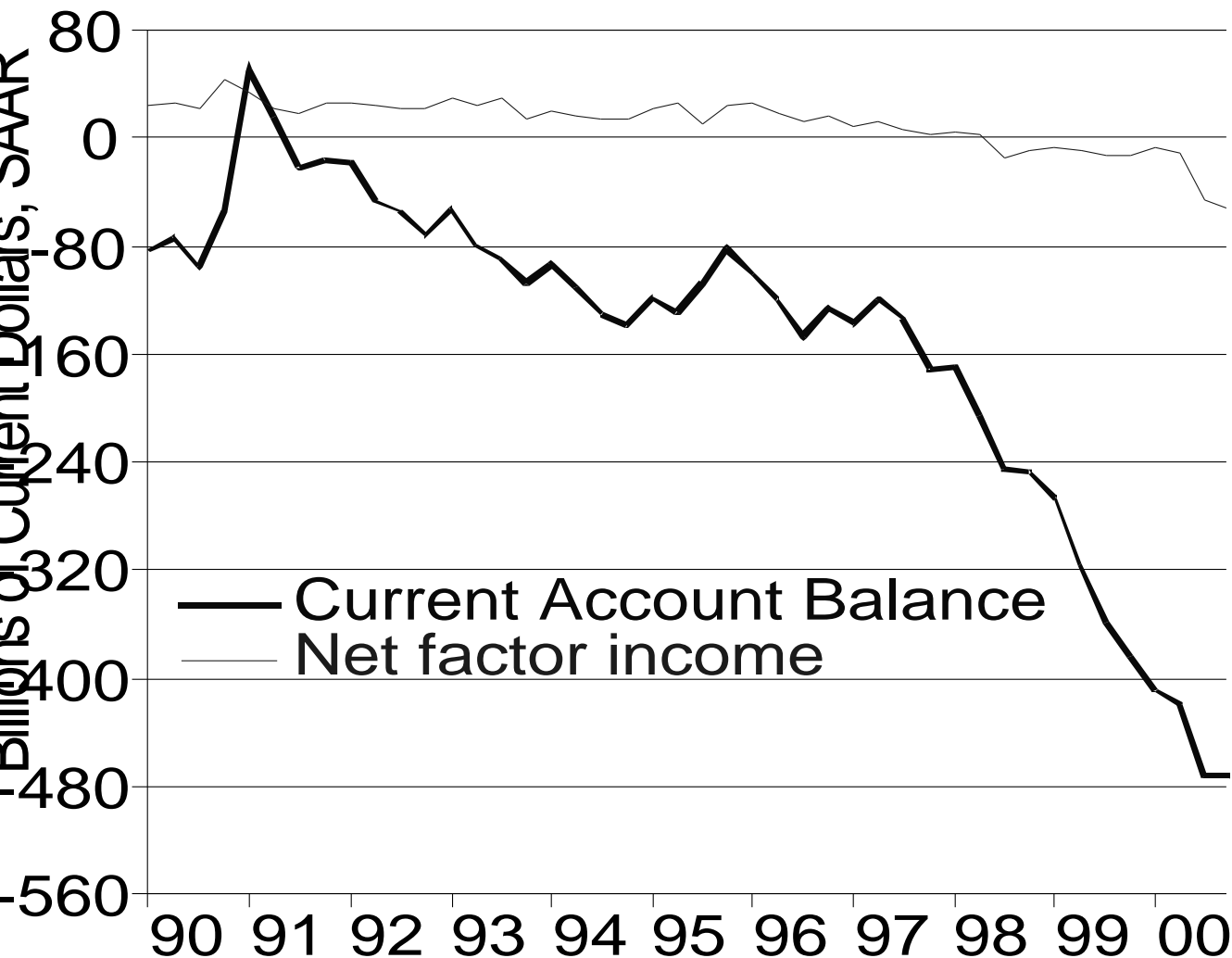
As of Sep 2000

The Dollar



- The dollar has been strong on US growth, capital inflows, and problems for the euro and yen
- Slower US growth, higher foreign growth may turn dollar around
- Later possible loss of US confidence, deficits could add to decline.
- Depreciation would moderate import growth, raise import prices
- Dollar drop could aggravate any equity decline

US External Debt Service not a problem now



Billions of Current Dollars, SAAR

Global Growth Overview

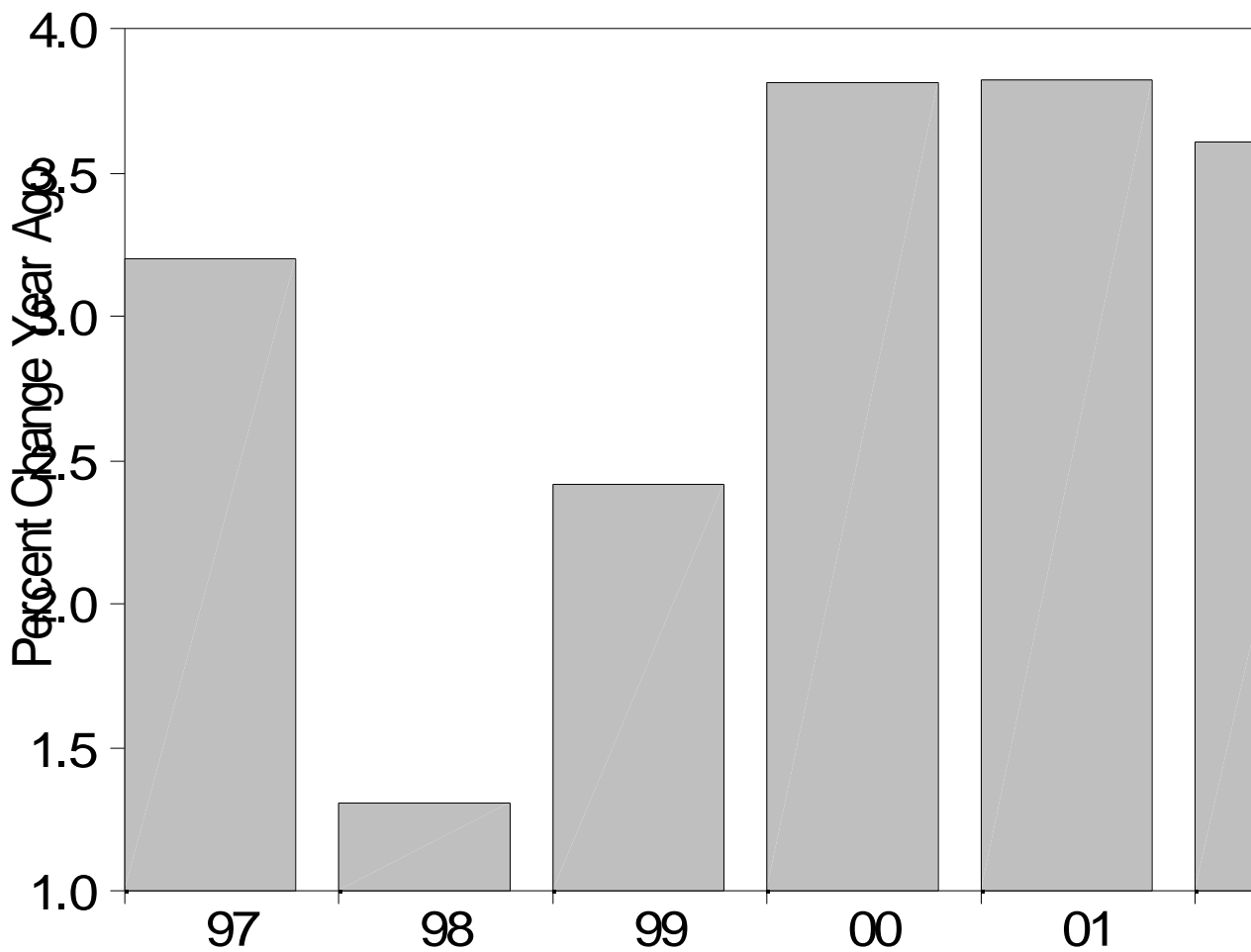


- **U.S. slowing, but “new” economy growth outpaces others**
- **Canada strong, Mexico accelerating**
- **Asia in Recovery. biggest risk now is oil.**
- **Growth in W. Europe is gaining strength.**
- **E. Europe: growth tied to Western Europe**
- **Commodity price improvement is helping Africa**
- **Middle East: oil prices up, economies recovering**
- **Latin America was in recession last year, but is recovering this year. It is still fragile**

World GDP (ex US)



World Growth booming after 98-99 recessions



A Sep 2000

World Growth Rates



Baseline	<u>98</u>	<u>99</u>	<u>00</u>	<u>01</u>	<u>02</u>
United States	4.3	4.2	5.2	3.7	3.4
Canada	3.3	4.5	4.5	3.3	3.0
W. Europe	2.8	2.1	3.3	3.1	2.7
Latin America	0.9	-0.7	3.6	4.3	4.4
Mexico	4.8	3.7	5.6	4.4	4.9
Middle East	0.6	2.6	5.9	4.4	4.0
Africa	4.0	3.2	4.6	5.0	5.6
Other Asia	4.6	5.7	5.9	6.5	6.7
Pacific Basin	-4.8	5.9	6.7	5.7	5.9
Japan	-2.5	0.3	1.9	3.1	2.7

(NOTE: Latin America excludes Mexico; Asian regions exclude Japan)

A Sep 2000

US Productivity Gains Here to Stay



Good News

near acceleration. A 5.1% rate vs
ear ago
supported by higher computer and
communications investment
future Internet gains
email products 0 marginal cost.
increasing returns (networks) What
charge?
see “Consumer Surplus” New
edonics/revisions

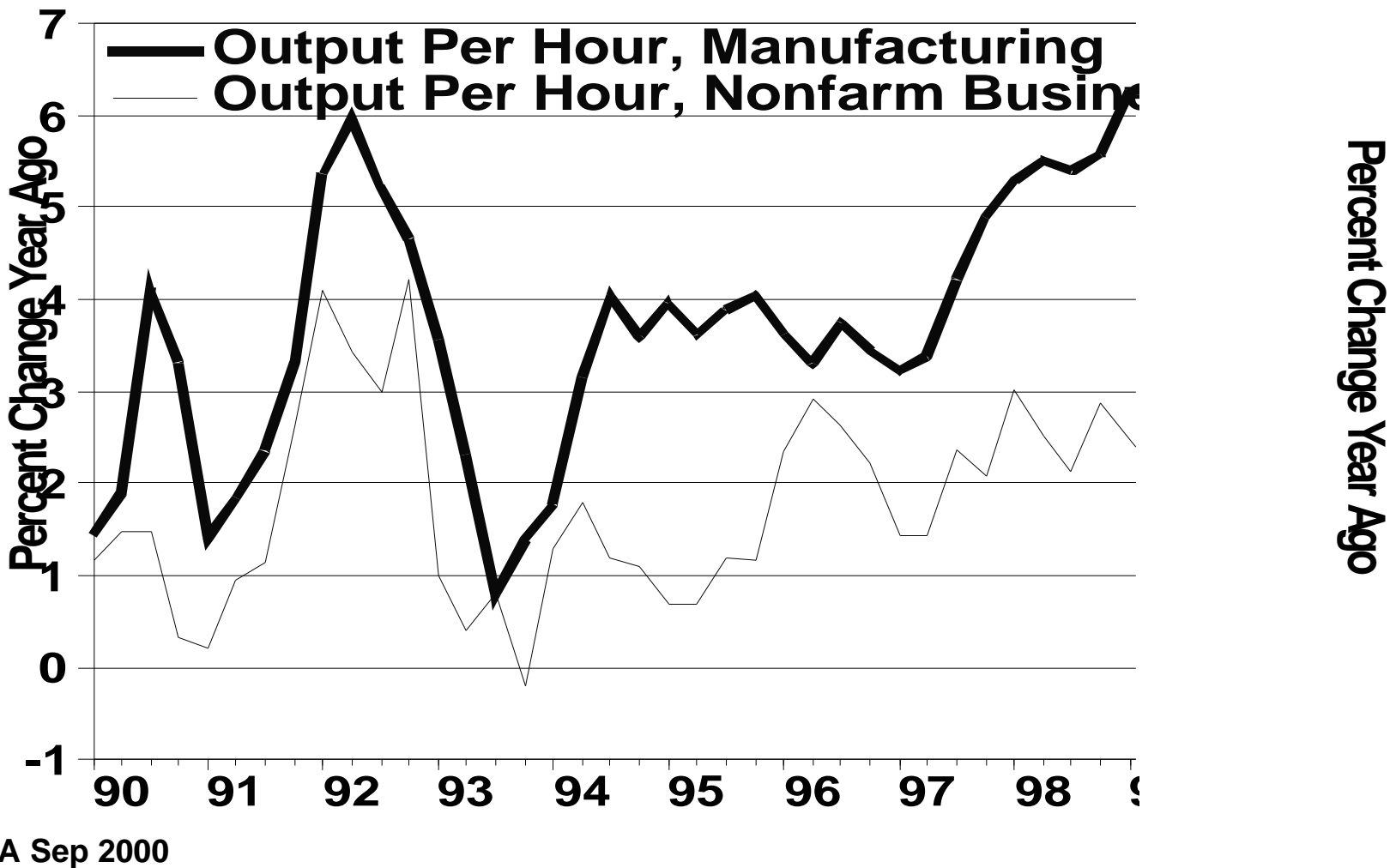
Bad News/Questions

- Gains partly cyclical
- Needs future innovation
stay above zero
- Computer deflator
distortion
- Quality declines? HMO
air travel
- Foreign countries catch
in application. Innovation
Wireless?

Conclusions:

Productivity gains mostly for real. Unique to US so far
Future gains will require labor force economies
Will hold near term at near 4% rate

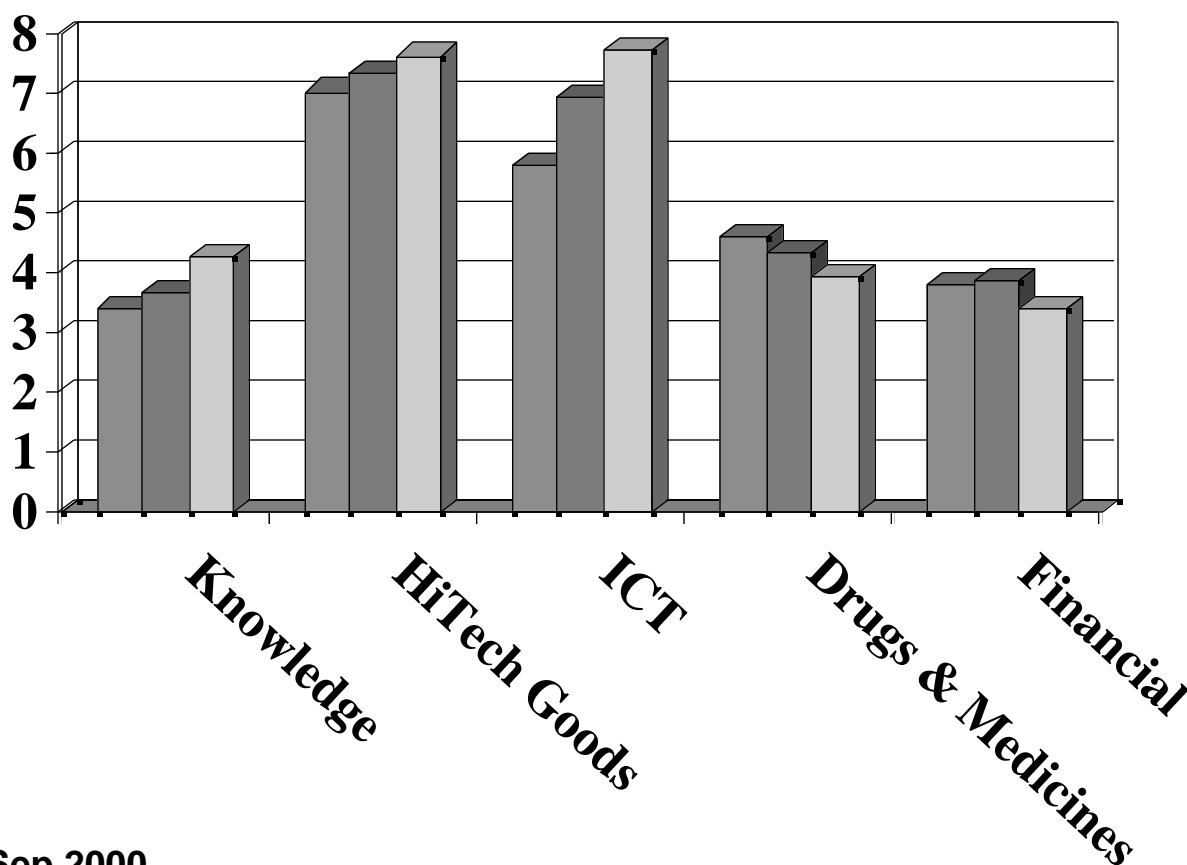
US Productivity Accelerates Led by Manufacturing



World High Tech Sectors



How Fast Are These Markets Growing? (Percent Growth of World Sales in Constant Prices)

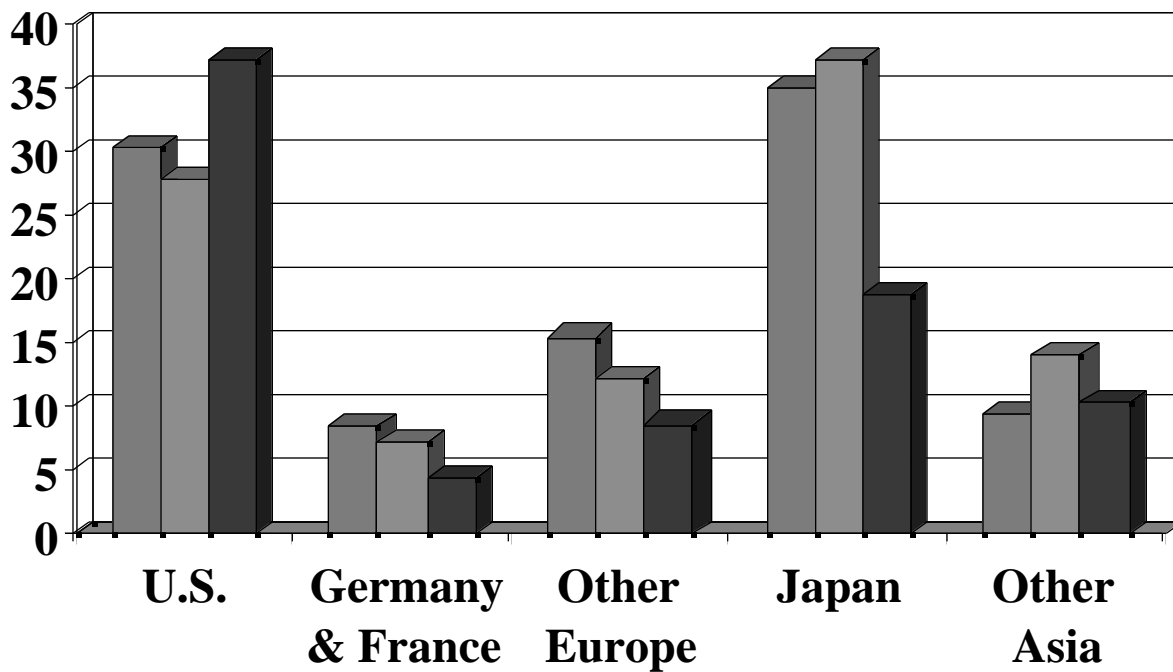


A Sep 2000

World High Tech Sectors



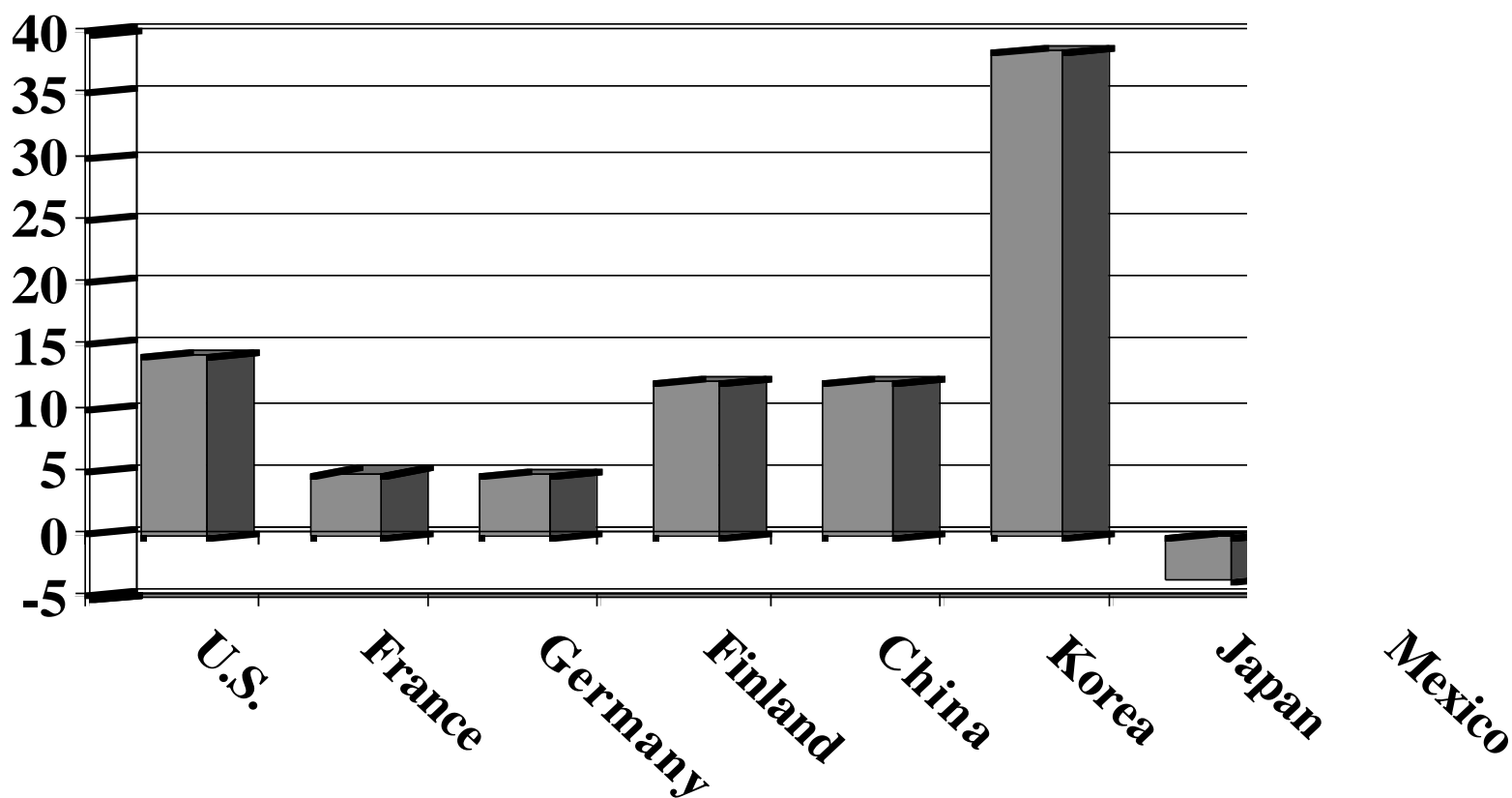
US has Gained Share of World ICT Market (Percent Share of Total World Production)



World High Tech Sectors



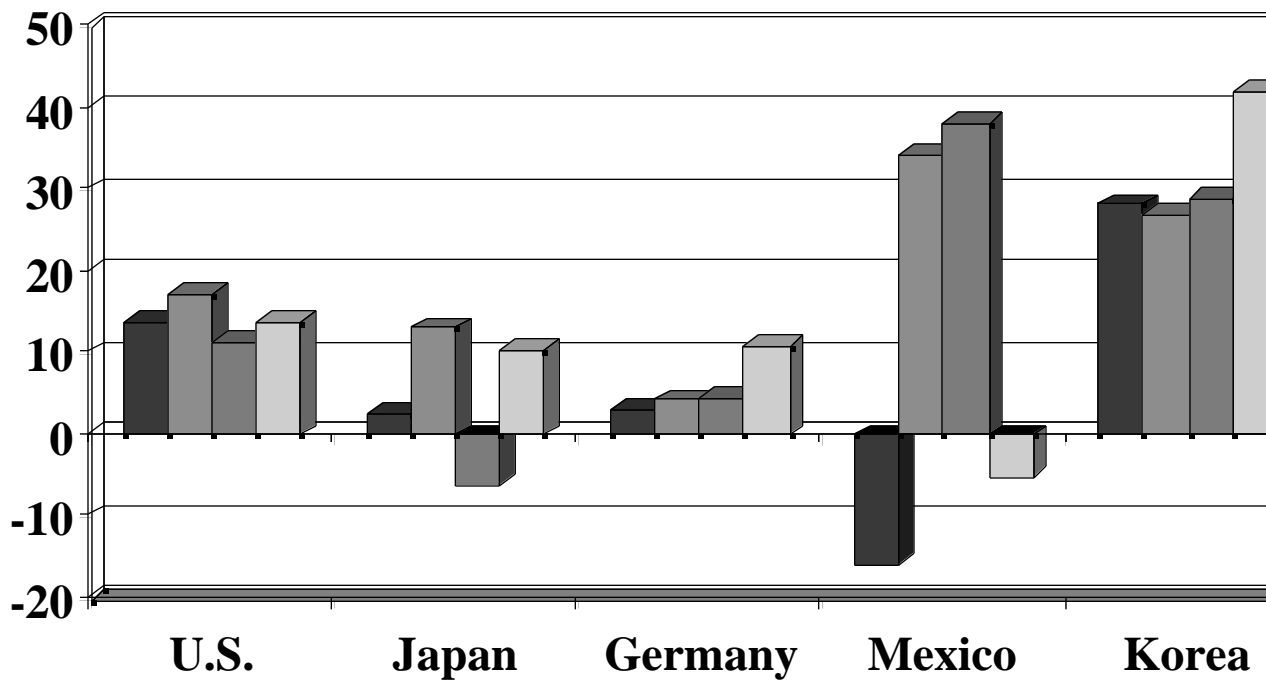
Who Has The Fastest ICT Growth? (1999 percent real growth rate in the ICT sector)



Communication Tech Leaders



Production Growth Rate of Communication Equipment



Canada and Mexico



Canada

Real GDP growth for 2000 — 4.5%, with 3.3% in 2001.

Interest rates expected to increase to above U.S. rates by 2003. CA\$ rises to 70 cents by 2003.

Mexico

Higher oil prices, booming US economy, and foreign investment will support real GDP growth of 5.6% in 2000 and 4.4% in 2001.

Inflation will fall below 10%. The exchange rate depreciates to MP\$12.8 by 2003.

W. Europe



Oil is biggest problem now. Gas at \$4 /gallon. Incomes down, deflation, strikes, consumer confidence.

Benefits of EMU beginning to appear. European structural efficiency gains from mergers, labor reforms.

Growth has returned. Manufacturing now strong.

Inflation still low, disposable income growth supporting consumer demand until now. Exports strong, euro weak.

Interest rates still low, but rising to defend the euro and prevent inflation. ECB Refi rate at 4% by year end.

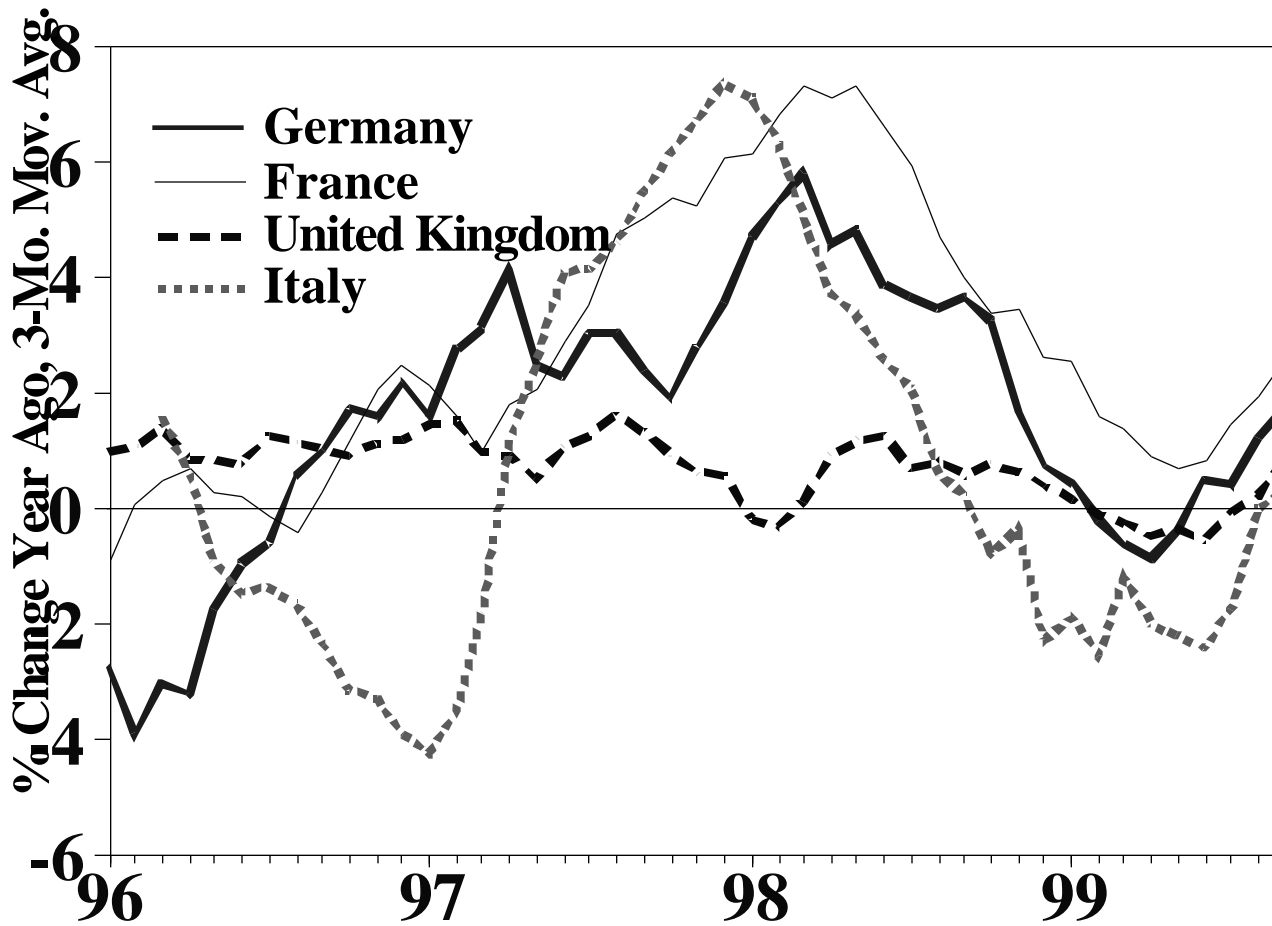
Fiscal policy much easier than last few years.

A Sep 2000

W. Europe



Industrial Production Rising Rapidly on Weak Euro



A Sep 2000

Asia



Strong manufacturing sector growth underway

Exports still very strong, exchange rates not a problem

Domestic demand continues to strengthen

Even Indonesia is growing, high oil price helps

Key risk now is oil for those importers. Other concerns for Asia are more long-run

- Financial Reform**
- Corporate Governance**
- Reduction of debt-overhang**
- Economic restructuring, end of Chaebols and Keiretsus?**

apan



Recession is over, but growth remains weak. Oil?

Consumer and business confidence are rising, but slow.

Financial situation continues to improve

- **The progress on financial reform is slow, but more and more effective. Softbank to buy Nippon Credit Bank.**
- **Finally sold Long-Term Credit Bank. Financial institutions are merging (Industrial Bank of Japan, Fuji and Dai-Ichi Kangyo have formed an alliance, for example) and restructuring.**

Fiscal policy will be a drag on growth in 2000 and 2001

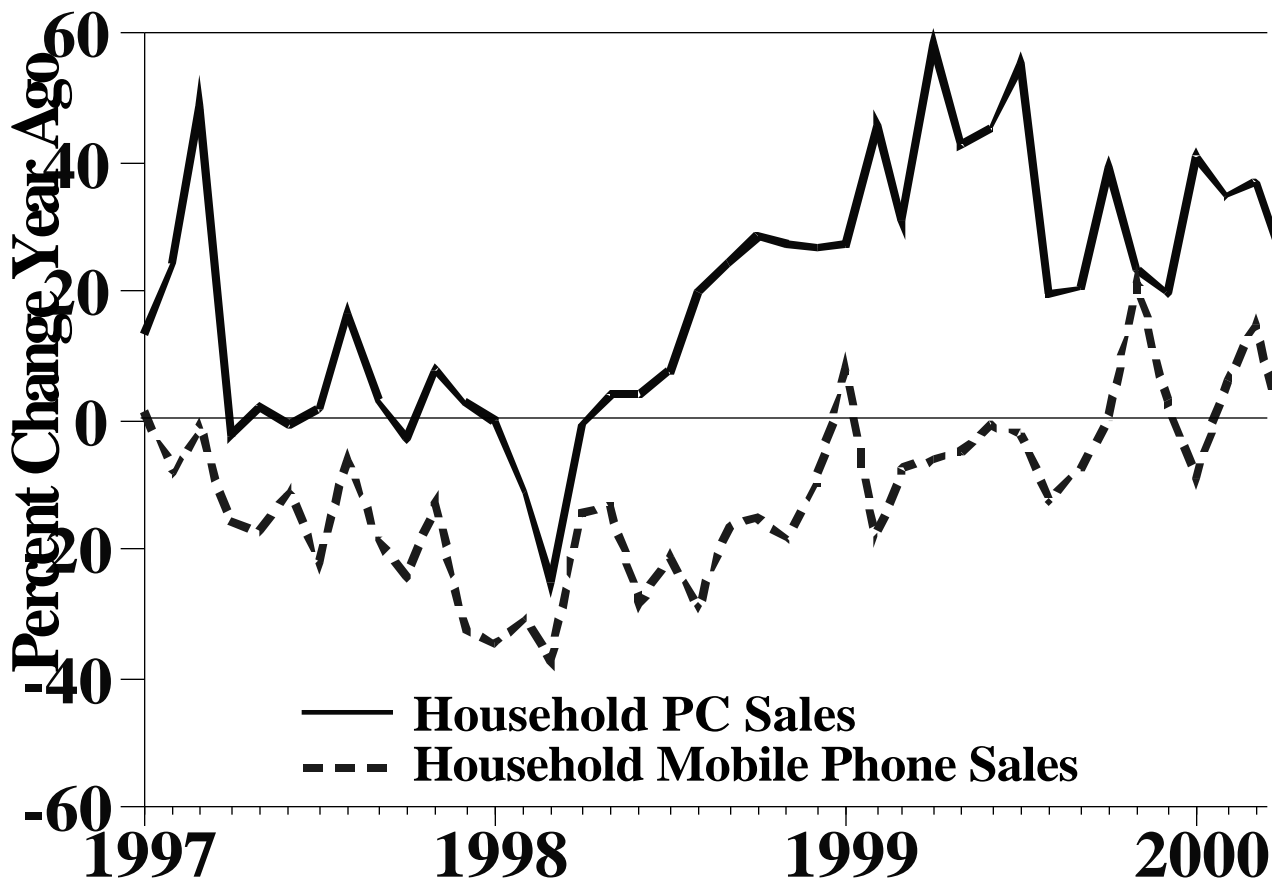
Private sector recovery will drive growth of 1.9% and 3.1% in 2000 and 2001.

A Sep 2000

Japan - New Economy

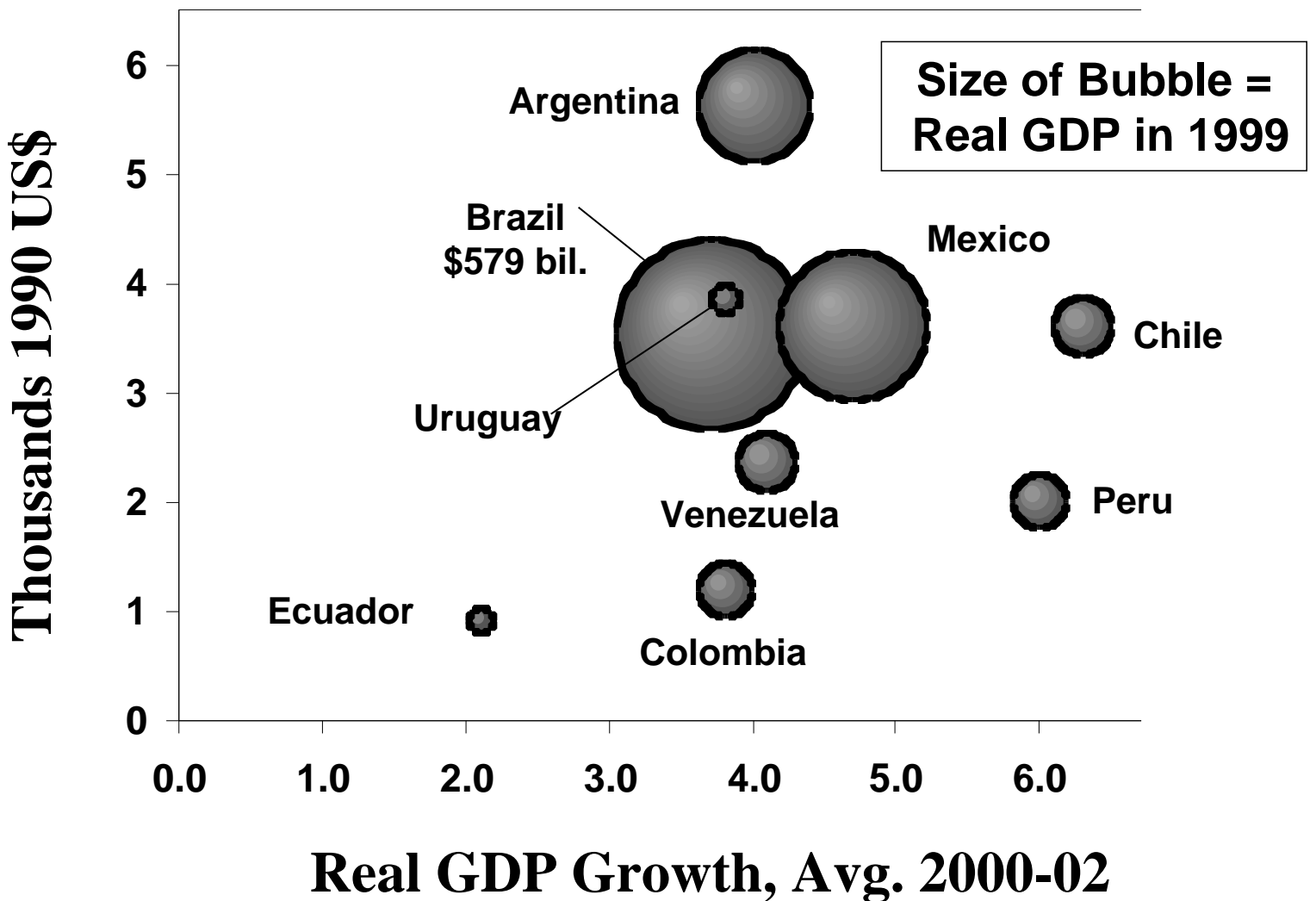


Internet is driving household purchases

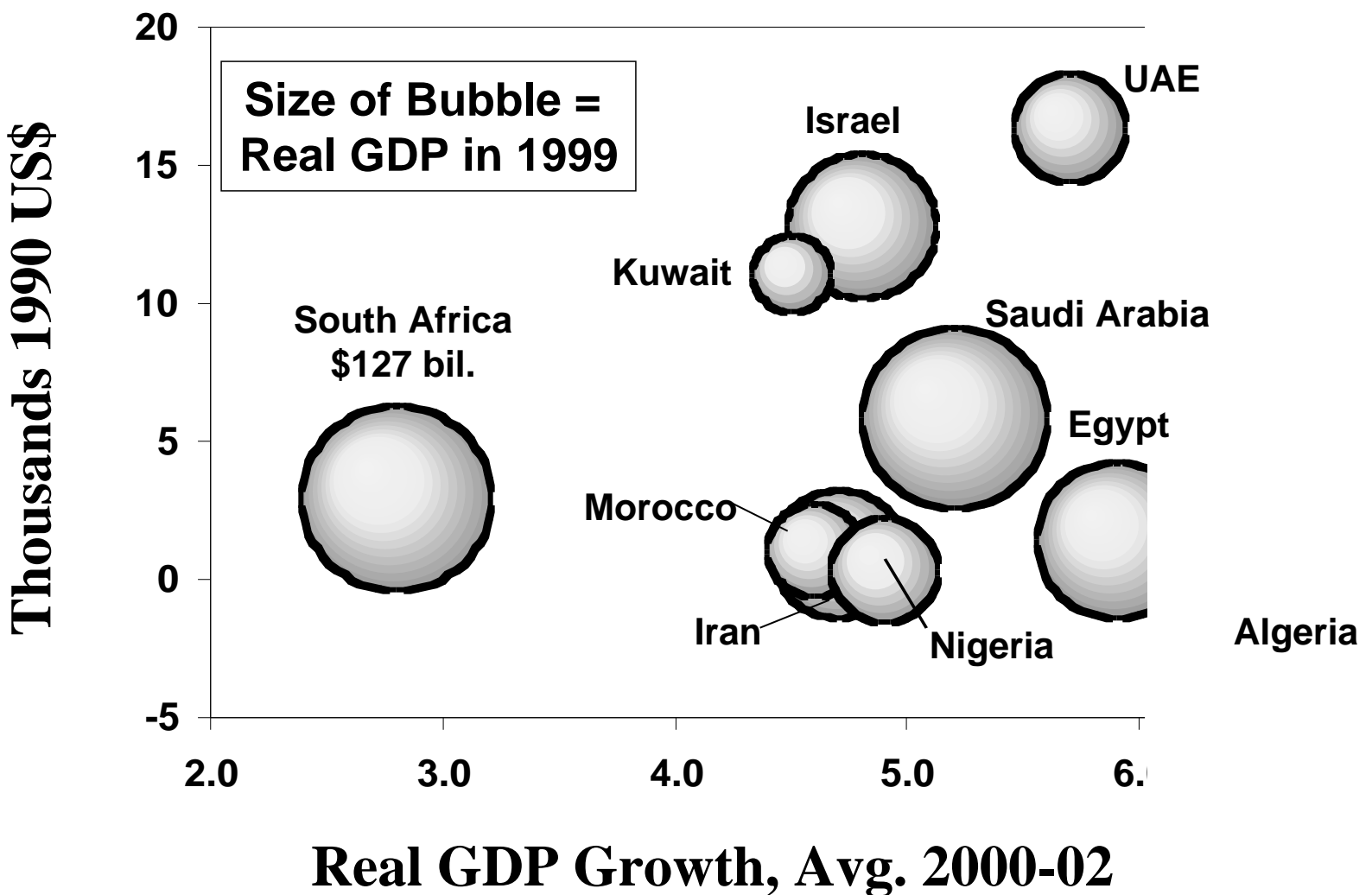


Percent Change Year Ago

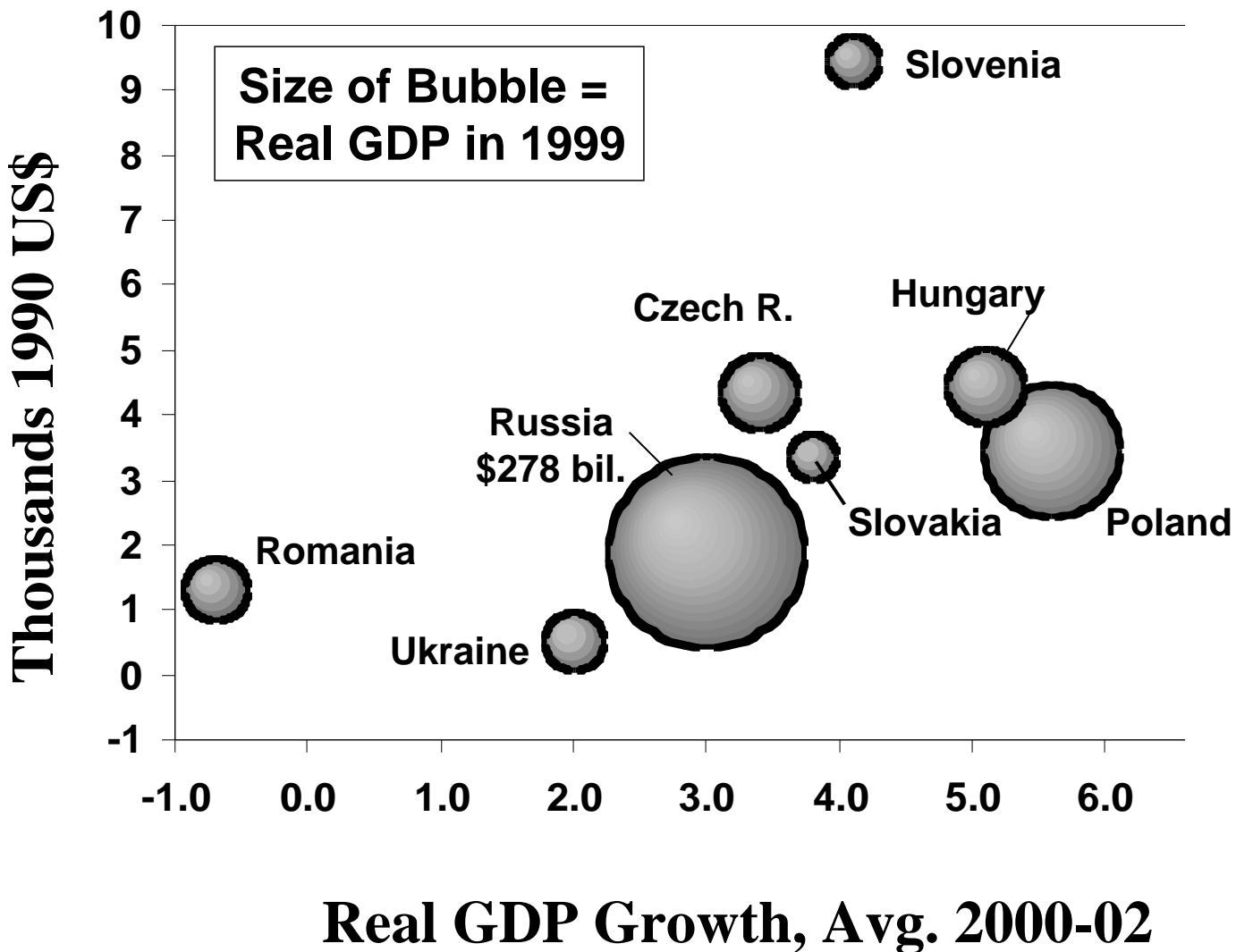
Latin America: Growth by Market Size



Middle East and Africa: Growth by Market Size



Emerging Europe: Growth by Market Size



Risks



- **A collapse in the global equity market**
 - “Bubble” bursts in United States.
- **Oil price spike hits most vulnerable**
- **Relapse into crisis in Asia or Japan**
- **Europe slumps again**
- **Brazil relapses (35% probability)**
- **Fed/ECB actions cause recessions?**
- **Protectionism reduces trade growth**

Conclusion

Weaker growth now more likely than global recession or stronger growth.