

# International Economic Forecast

February 2015

## Summary—Growth Will Vary: World GDP growth at 2.8 percent

- U.S. 3 percent
- Eurozone 1.1 percent
- Central/Eastern Europe -1.1 percent
- Asia 4.7 percent



### Projected World Growth, yearly percentages

	2013	2014 E	2015 F	2016 F
<b>World GDP Growth</b>	2.4	2.5	2.8	3.1
<b>North America</b>	2.2	2.4	3.1	2.9
U.S.	2.2	2.4	3.1	3.0
Canada	2.0	2.3	2.4	2.3
<b>Latin America</b>	2.7	0.9	1.3	2.3
Brazil	2.5	0.0	0.5	1.3
Mexico	1.1	2.3	3.2	3.7
<b>Western Europe</b>	0.0	1.2	1.3	1.6
U.K.	1.7	2.6	2.5	2.2
Sweden	1.3	1.8	1.5	2.1
<b>Eurozone</b>	-0.4	0.8	1.1	1.4
Germany	0.2	1.5	1.3	1.6
France	0.4	0.4	0.9	1.2
Ital	-1.9	-0.4	0.3	0.8
Spain	-1.2	1.4	1.9	1.9
Netherlands	-0.7	0.7	1.0	1.4
<b>Central and Eastern Europe</b>	1.9	1.3	-1.1	-0.1
Russia	1.3	0.2	-5.5	-4.0
Turkey	4.1	2.8	4.3	4.0
Poland	1.7	3.2	3.0	3.2
<b>Asia</b>	4.9	4.3	4.7	5.2
China	7.7	7.4	7.3	7.3
Japan	1.6	0.1	1.0	1.5
India	5.0	5.8	6.4	6.8
<b>Oceania</b>	2.1	2.7	2.7	2.9
Australia	2.1	2.7	2.6	2.9
<b>Middle East</b>	2.7	3.2	3.6	3.6
Saudi Arabia	4.0	4.5	4.0	4.5
<b>Africa</b>	4.1	4.0	4.5	54.0
South Africa	1.9	1.5	2.5	3.0
Morocco	4.4	3.0	4.2	4.5

## **U.S. Economic conditions have improved substantially in the past few years.**

- Have moved from recession to approximately 3 percent growth per year.
- The recovery has been slow, including slow job growth and disappointing wage growth.
- Exports have grown, but concern about stronger dollar's effect on exports.
- Incomes—very slow growth in recent years, almost negligible for most people. However, lower oil prices should be a major help to the American consumer.
- Interest rates may rise, but the level of increase probably not a problem.
- The strong dollar will continue to keep down the cost of imported goods, but may cut into profits of U.S. companies doing business abroad. The dollar will strengthen more because of strong growth prospects and Fed rate hikes (sooner than most other central banks) along with a diminishing current-account deficit. The dollar, which rose by around 8% against major currencies in 2014, may rise another 3-5% in 2015.

## **U.S. Real estate markets recovering.**

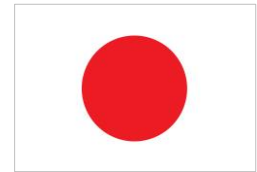
- Existing Home Sales 5 million level; prices have recovered to a significant degree.
- New Home Construction: Should normally be in 1.5 – 1.6 million level, currently is at 1 million.
- Commercial Sales: continue to recover; substantial interest (approximately 9 percent of sales) in U.S. properties by foreigners.



## Comments on World Growth



- **Eurozone**, approximately 1.1%:
  - Factors for momentum: a weaker euro, reduced fiscal headwinds, diminished sovereign debt tensions, an accommodative monetary policy, sustained low oil prices.
  - Labor markets are improving modestly in most countries—providing some support to consumer spending, in tandem with very low consumer price inflation. Likely a growing pent-up demand for spending by businesses to



- **Japan**, boost GDP from an anemic 2014 at 0.1% to 1.0% in 2015.
  - The government will likely provide some temporary stimulus in 2015 and 2016. At the same time, the BoJ has pledged to further expand its quantitative easing program.
  - Policy moves, along with much lower oil prices and a substantially weaker yen, will push Japanese GDP growth back into positive territory in 2015.
  - One of the upside risks for the Japanese economy is significant pent-up demand in the corporate sector, as evidenced by the massive cash hoard—44% of GDP, compared with 11% for the US.



- **China:** 7.3% growth in 2015.
  - Continue the focus on more domestic driven growth and crucially lessening over investment and excess capacity.
  - Recent problems in the Chinese economy can be attributed to a weak domestic economy—primarily because of the real estate bust—combined with a fragile external environment for China's exports.



- **Russia**

- Collapse in Russian GDP, with economic sanctions, capital flight and the near halving of the value of both the RUB and oil: 0.2% growth in 2014; these problems will be compounded into a drop of -5.5% in 2015, followed by -4.0% in 2016.

- **Emerging Economies**

- Stronger growth in 2015 compared with 2014 thanks to weaker oil prices, a boost in global liquidity, and stronger US and European growth.
- Regions that are likely to see the largest increases in growth during 2015 include emerging Europe, Latin America, the Middle East and North Africa, and sub-Saharan Africa.
- Some countries will do especially well, including India, Indonesia, Malaysia, and the Philippines in Asia; Colombia and Peru in Latin America; and Kenya in Africa.

## **Risks to Forecasts: Potential Black Swans: The unexpected is unpredictable.**

- Terrorist acts
- Additional Ebola outbreak
- Uncertainties about how financial markets will act if Fed increases rates
- Innumerable potential crises around the world
- Economic problems in Europe and Asia.

### **Questions?**

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