ARE WE LOOKING AT THE JAPANIFICATION OF THE WEST?

DR. RICHARD BARKHAM, GLOBAL CHIEF ECONOMIST, HEAD OF GLOBAL RESEARCH
WHAT IS JAPANIFICATION?
LOW GROWTH, CONSTANT NEAR RECESSION
REAL GDP GROWTH, QUARTERLY Y-O-Y %


CBRE ECONOMETRIC ADVISORS CLIENT FORUM
LOW INFLATION… DISINFLATION
DISINFLATION: JAPAN IN THE 1990S

BUT LOW UNEMPLOYMENT
HARMONISED UNEMPLOYMENT RATE (%)
AND LOW YOUTH UNEMPLOYMENT
UNEMPLOYMENT OF LABOR FORCE AGES 15-24


CBRE ECONOMETRIC ADVISORS CLIENT FORUM
AND ONLY MILDLY MORE PART-TIME WORKERS
PART-TIME (LESS THAN 30 HOURS A WEEK) EMPLOYMENT RATE

Source: OECD, CBRE Research, 2019.
WHAT CAUSED JAPANIFICATION?

DOES IT APPLY TO EUROPE?
DEMOGRAPHICS?
DEMOGRAPHICS IS PART OF THE STORY
WORKING AGE (15-64) % OF TOTAL POPULATION

CBRE ECONOMETRIC ADVISORS CLIENT FORUM
WHICH IS A SOCIAL CHOICE
PERCENT OF FOREIGN-BORN RESIDENTS

CBRE ECONOMETRIC ADVISORS CLIENT FORUM
BUT JAPAN’S ADJUSTED GROWTH...NOT TOO BAD

GDP PER PERSON EMPLOYED (CONSTANT 2011 PPP $)


CBRE ECONOMETRIC ADVISORS CLIENT FORUM
AIDED BY HIGH LEVELS OF INVESTMENT
GROSS FIXED CAPITAL FORMATION (% OF GDP)

CBRE ECONOMETRIC ADVISORS CLIENT FORUM
FISCAL POLICY TOO TIGHT AT FIRST
JAPAN’S FISCAL BALANCE AS % OF NOMINAL GDP

May also be a problem in the EU
EU ex. UK net fiscal deficit as % of nominal GDP

PARTICULARLY FOCUSING ON CORE EU

CORE EU 6 NET FISCAL SURPLUS AS % OF NOMINAL GDP

Source: National Sources, Macrobond, CBRE Research, 2019.
INTEREST RATES TOO HIGH FOR TOO LONG
REAL SHORT-TERM INTEREST RATE (POLICY RATE – CORE CPI, %)

UNCONVENTIONAL MONETARY POLICY WAY TOO LATE
BOJ BALANCE SHEET, TRILLION YEN

Source: Bank of Japan, Macrobond, CBRE Research, August 2019.
CBRE ECONOMETRIC ADVISORS CLIENT FORUM
NOT EXACTLY THE CASE IN THE EU
ECB BALANCE SHEET, TRILLION EURO

Source: European Central Bank, Macrobond, CBRE Research, July 2019.
CBRE ECONOMETRIC ADVISORS CLIENT FORUM
OTHER FACTORS?
EXPORT DEPENDENCE?
TRADE BALANCE (EXPORTS – IMPORTS) TO GDP (%)
BAD DEBTS?
NON-PERFORMING LOANS TO TOTAL GROSS LOANS (%)

CBRE ECONOMETRIC ADVISORS CLIENT FORUM
OVER REGULATION?
BURDEN OF GOVERNMENT REGULATION INDEX, 1-7 (BEST)

CBRE ECONOMETRIC ADVISORS CLIENT FORUM
LEARNINGS

- Japan’s situation mainly due to policy and broad social choices – not so much demographics
- In any case, demographics is not destiny, it’s a choice
- Japan’s problems derive from allowing deflation to become endemic – this is key lesson
- Recent ECB moves show that the EU is not Japan – so also does immigration
- But the fiscal conservatism of Germany and the core EU is a real problem
- It is creating tension in the EU - and with the wider world
- Brexit might move the needle, but also expect the U.S. to weigh in
WILL EU USE ITS FISCAL CAPACITY?
CENTRAL GOVERNMENT DEBT TO GDP %


CBRE ECONOMETRIC ADVISORS CLIENT FORUM
NEAR-TERM OUTLOOK?
GERMANY’S EXPORT MACHINE FALTERS
EXPORT GROWTH (% PER ANNUM)

Source: National Sources, Macrobond, CBRE Research, Q2 2019.
MANUFACTURING ACTIVITY FALLING QUICKLY
IHS MARKIT PMI INDEX (50 = NO CHANGE)

Source: IHS Markit, CBRE Research, Q2 2019.
THE TRADE WAR
WORLD TRADE HAS SLOWED

WORLD TRADE VOLUME INDEX

Forecast

Source: CPB, Macrobond, CBRE Research, June 2019.

CBRE ECONOMETRIC ADVISORS CLIENT FORUM
**Key Dates in the US-China Trade Negotiations**
- **1995.1:** The US imposes Safeguard Tariffs as well as steel and aluminum tariffs.
- **1997.1:** A series of tariffs by the US and China goes into effect. The US also ends tariff exemptions for EU, Canada, and Mexico. EU and Canada impose tariffs on the US.
- **2001.1:** A tariff truce between the US and China is announced.
- **2002.1:** A series of tariffs by the US and China.
- **2005.1:** Tariff increase on US$200 billion of imports from China is scheduled to go into effect on March 1. But a delay is announced on February 24.
- **2018.1:** The US imposes Safeguard Tariffs as well as steel and aluminum tariffs.
- **2019.1:** The US and China agree to resume trade talks.

**World Trade Uncertainty Index**

The source for the data on key dates in the US-China Trade negotiations comes from Bown and Kolb (2019).
BUSINESS CONFIDENCE IS IN DECLINE

(100 = NO CHANGE)

Source: OECD, CBRE Research, Q2 2019.
BUT CONSUMERS ARE CONFIDENT

NIELSEN CONSUMER CONFIDENCE INDEX (Q1 2010 = 100)

Source: Nielsen, CBRE Research, Q2 2019.
GLOBAL INFLATION IS SUBDUED
G7 & BRIC HEADLINE CPI INFLATION (Y-O-Y, %)

Source: National Sources, Macrobond, CBRE Research, Q2 2019.
GIVING SOME ABILITY TO CUT RATES
CENTRAL BANK POLICY RATES (END-OF-PERIOD, QUARTERLY)

## QUANTITATIVE EASING IS BACK

<table>
<thead>
<tr>
<th>Central Bank</th>
<th>Monetary Policy Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve</td>
<td>The Fed continues to normalize its balance sheet at a slower pace than before, counterbalancing the runoff of MBS holdings with an increase in Treasury securities.</td>
</tr>
<tr>
<td>European Central Bank</td>
<td>The ECB has cut the deposit rate 10 basis points to a record low -0.5% from -0.4% and will restart bond purchases of €20 billion a month from November.</td>
</tr>
<tr>
<td>Bank of Japan</td>
<td>The BOJ’s rate of assets purchased indicates significant signs of tapering off, as it continues its QE program.</td>
</tr>
<tr>
<td>People’s Bank of China</td>
<td>PBOC has cut banks’ reserve ratios, freeing up $126 billion for loans.</td>
</tr>
</tbody>
</table>
AND FISCAL STIMULUS IS POSSIBLE

THE WALL STREET JOURNAL.
In Reversal, Trump Says He Is No Longer Considering Tax Cuts
President had said Tuesday he wanted to bolster the economy by reducing capital gains, payroll taxes

EU begins rethinking fiscal rules as economy slows

FINANCIAL TIMES
UK chancellor signals an end to the ‘age of austerity’
Sajid Javid's spending review puts Tories on election footing with string of new commitments

Bloomberg Economics
China Considering Increasing Local Debt Sales to Boost Stimulus

REUTERS
Japan government eyes record budget spending, fiscal reform in doubt
GDP GROWTH LIKELY WEAKER NEXT 2 YEARS
G7 & BRIC (%)