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Idea The Persian Gulf, the United States and the Arab monarchies

Allen Sinai

The US economy: key to global recovery

Solid and improved growth for the American economy is the forecast for the rest of 2013 and 2014 as several significant negative "macro risks" fade from the scene and some positives emerge. Principally, however, as the United States goes so will go the global economy. A pickup in economic growth in the US and in Japan, as that country aggressively reflates its economy, should finally help the world economy to come out of its depressed growth and financial difficulties.

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Compared with much of history, this coming period for the United States will most likely be one of relatively slow economic growth, but compared with the recent past, its economic performance looks better and more "normal" going forward. In 2012, the American economy disappointed, growing only 1.7% in real GDP. High unemployment persisted and growth in corporate revenues and business profits declined sharply. The global economy also had a difficult year, increasing by only 2.3%. But, as 2013 progresses, the US and global economies should improve and 2014 should be even better. The "Basic Prospect" – a baseline outlook elaborated by Decision Economics, Inc. – foresees renewed US economic growth, a significantly lower unemployment rate, low but stable price inflation, and improved corporate profits. The Federal Reserve's monetary policy will keep providing support by holding short-term interest rates near zero through the rest of 2013 and 2014, and by increasing its balance sheet further on the path-breaking "open-ended" quantitative easing (QE) that began in September 2012. This should keep long-term interest rates relatively low, albeit with yields moving modestly higher, and financial conditions conducive to increased growth.

The Federal Reserve has made it clear that it will remain accommodative for a long while yet. Low short- and long-term interest rates and a larger central bank balance sheet help stock prices, increase household sector wealth, and improve household financial conditions. In turn, consumer sentiment and spending respond positively.

All told, with this picture in the United States, stronger growth in Asia and, as a consequence, Europe's downturn bottoming out, the global economy should grow faster than in 2012, in a range of 2.5% to 2.75%, and then 3% or more in 2014.

Naturally, there are significant "macro risks" that could negatively impact these forecasts, but downside macro risks are fewer than in the past and a significant upside now exists. Basically, if the American economy improves, so will the world economy.

THE BASIC PROSPECT AND MACRO RISKS: MINUSES AND PLUSES.

The Basic Prospect for the US and global economies in 2013-14 is stronger expansion after a flirtation with recession in 2012.

The Basic Prospect does have some negative macro risks associated with it that could impede, abort, or somehow change the prospect and its probability. But, many of these risks have faded in importance over the past year. Some remain, such as the ongoing recession in Europe, uncertainty surrounding the China prospect, and sovereign financial debt problems in some eurozone countries which could push the European economy down further. It is also unsure whether the American consumer will start to spend aggressively again, whether US business profits and business spending will indeed rise, and what fiscal policy actions will be launched in Washington.

On the positive side is the reemergence of Japan, now back in the game and economically viable, with the possibility of pleasant surprises there in economic growth and business activity. The weight of Japanese investment monies should improve global financial markets. Furthermore, financial deleveraging is well along in the United States, for households particularly. Non-financial corporations are in the best financial position ever. And financial institutions – despite new and more stringent rules, more oversight, and increased capital requirements – are set to lend more of the huge bank excess reserves on deposit at the Federal Reserve's regional banks.

The United States remains the most important country for the global economic prospect, and happily the American economy – after several years of very anemic recovery and subdued expansion, which was out of sync with most of history – is on a path of renewed growth. Indeed, for the US, the prospect is relatively bright: continuing and growing expansion for the next several years, in what ultimately looks to be an extended upturn, stronger and more broad-based than in recent years, initially led by consumption (about 70% of real GDP) housing and residential construction (about 3% of the economy).

The evidence suggests that an entrenched private sector upturn is ongoing, led by consumption and housing, that will be hard to dislodge. Business capital spending usually lags any upturn in consumption and is more likely to pick up significantly in 2014. Finance and entrepreneurship should become more active, but later rather than earlier. Financial intermediaries have been quite cautious, but over the next 18 months should begin to lend more, and more aggressively.

The pace of US growth will also depend very much on fiscal actions as well as economic growth in other countries and global regions. The US government sector, particularly at the federal level, is set on a course of fiscal restraint, mainly from attempts to rein

Table • US Basic Prospect: some selected dimensions

	Years		
	2012	2013	2014
US economy			
Real GDP (% change)	1.7	2.3	3.0
Inflation and unemployment			
CPI-U (% change, annual)	2.1	1.6	1.8
Unemployment rate (%; Q4 average)	7.8	7.1	6.5
Interest rates (%; Q4 average)			
3 months T-bill	0.08	0.12	0.25
10 years US Treasury	1.79	2.40	2.92
Profits			
S&P500 operating earnings (dollars; annual average)	103.6	109.0	118.6
(% change; annual)	4.9	5.2	8.8
Equity market			
S&P500 (Index; annual average)	1380	1616	1813
S&P500 (Index; Q4 average)	1418	1682	1858
S&P500 (% change; Q4-over-Q4)	9.5	18.6	10.5
US dollar			
Dollar/Trade weighted (nominal)	0.735	0.751	0.764
Dollar/Euro (level)	1.286	1.319	1.266
Federal budget deficit			
(billions of dollars, Unified, FY)	-1,088	-677	-603
Gross public debt/GDP (%)	103.1	105.1	105.3
Eurozone (17 countries)			
Real GDP (% change; annual average)	-0.6	0.4	0.8
Europe (EU, 27 countries)			
Real GDP (% change; annual average)	-0.4	0.5	1.0
Global economy (47 countries, 93% of world output)			
Real GDP (% change; annual average)	2.3	2.5	3.2

Note: Prospect odds 65%, mid-2013; data from 2013, 2014 forecasts; Q4-over-Q4.
Source: Decision Economics, Inc. (DE).

in the outsized federal budget deficits and debt that accumulated and characterized previous years. Federal government purchases, after adjustment for inflation, are expected to decline and permanently so on federal budget restraint and fiscal consolidation. State and local government spending, on the decline since 2009, should turn somewhat positive over the next year.

Tight fiscal policy – that is, reductions in the pace of growth of federal government purchases and in outlays, along with tax increases – is now locked in for many years. The questions that remain include: how much; the composition of reductions in the pace of expenditures and the increases in revenues; whether or not there will be tax reform; how federal government payments to support the health and retirement of an aging population will be rationalized.

The reduction to America's real economic growth from the declines expected in real federal government purchases should be about 0.75 percentage points per year, making it hard for overall US growth to move much beyond 3%. But ex-federal government purchases, the US economy's private sector will likely expand smartly, perhaps rising by as much as 4% per annum.

HOUSING, EXPORTS, LABOR. In the United States, the fundamentals surrounding consumer spending and housing are much improved, though spending is still nowhere near what used to be the case. Growth in real consumption is expected at 2.4% in 2013, only modestly better than the 1.9% of 2012. In 2014, when the consumer fundamentals of jobs and income, household wealth, consumer sentiment and household financial conditions provide more support, the expectation is for a 2.8% gain. Real residential construction, in a strong upturn since 2011, and led by much stronger home sales and housing starts, should rise by a large 13.6% in 2013 and by about 11% in 2014. These are the main private sector drivers of the renewed growth upturn that is expected for the United States.

Aggregate consumption spending in the US has been far, far below historical trends for almost seven years now, including the time of the Great Recession, 2007-09. Compared with prior history, large declines in the pace of consumption (only 1.5% per annum since 2005) have been the main source of the anemic and subdued growth. Between 1955 and 2005, trend growth for consumption averaged 3.5% a year. The consumer economy, now nearly 12 trillion dollars in nominal terms, also includes housing and real residential construction. Together, these spending aggregates account for 73% to 74% of real US GDP. Can consumption claw its way out of this growth rut? Very likely, the answer is yes. This can occur, in part, because of more private sector demand for loans and increased lending by financial institutions, especially in 2014.

A weaker area of activity will likely be net exports, reflecting continuing economic weakness in Europe and rising US demand for imports. Better economic growth is also set to occur in Asia. This positive trend is being led by Japan, emerging now from a long period of troubled times thanks to a huge reflationary set of policies that include a massive monetary and fiscal stimulus, reform (especially deregulation), and in-process seismic shifts in the country's politics and society.

America's unemployment rate – a determining factor in aggregate consumption – has been moving gradually lower, at 7.5% in mid 2013, compared with 8.2% a year ago. It is expected to reach 7% by the end of 2013 and 6.5% or so by the end of 2014. Inflation is forecast to be low and relatively stable, ranging between 1.5 and 2%. For 2013, corporate profits – measured by S&P500 operating earnings – are projected at about $109, a 5.2% increase over 2012. In 2014, a near 9% gain is forecast.

CAUSE FOR CHEER. The pickup in economic activity in the United States should reverberate around the world economy. Asia, if no further significant decline occurs in the Chinese economy, should help generate renewed growth in sales and earnings for US companies later in 2013 and 2014. In turn, this should help drive up business capital spending and hiring, as well as extend and broaden the US economic expansion.

Other sources of optimism for the American economy include: continuing reductions in business costs, particularly from subdued hiring, smart management, and new technology; a rapid pace of innovations, especially internet-related; increased use of new info-tech equipment and software in production; better revenues as product prices stabilize; and, finally, a general pickup in the global economy.

New, and repeated, stock market highs should occur – irregularly so, perhaps, but on a continuing basis. Rising stock and housing prices will help improve consumer balance sheets and increase household wealth, in turn supporting a higher pace of consumption spending.

America's situation should help lift global economic growth to a 2.5% to 2.75% range in 2013. In 2014, the projection for growth in the global economy is 3 to 3.5%, the best in many years. In 2012, the global economy rose by only 2.3% – flirting with a recession (defined as real economic growth under 2%).

The US prospect and risks might be thought of as a spaceship (the American economy) launched into orbit – mainly by the quantitative easing of the Federal Reserve – but not so high as desired. Spinning around in this relatively low orbit are meteorites (such as the eurozone crises) that could knock the spaceship off course. Fortunately, the Fed can be expected to keep applying bursts of propulsion with its open-ended QE until the spacecraft reaches a certain altitude – one that can be maintained (which means stronger real economic growth and a lower unemployment rate). At that point, less stimulus will be applied, gently so, in order for the new higher orbit to be sustained.

EUROPE'S RECESSION. One negative macro risk for the global prospect has to do with the ongoing recession in Europe, which has lasted nearly two years in some countries after a short recovery from the 2008-09 recession. About 85% of the European Union's GDP (which represents a large portion of global GDP) is in a clear recession.[1] Particularly depressed are the economies of Spain, Italy, Portugal and Greece, but even some countries in Northern Europe, such as the Netherlands and Belgium, have been dragged down.

The European downturn began in Ireland and then moved into Greece and Portugal. It spread due to internal and external trade interactions that were worsened by lender conditionality and austerity for countries in need of a bailout; they were further intensified by a sharp deceleration in Asian real economic growth as well as disappointing growth in the US economy.

Weakness within and outside the eurozone hurt exports. The financial fragility of a number of countries led to funding needs for some which, in turn, was met by tough lender conditionality. This weakened the eurozone economy further. A financial crisis within Europe in the sovereign debt of troubled and potentially troubled economies, the contraction of loan asset values on bank balance sheets, a credit crunch, and bailouts (necessitated at the sovereign level for several countries) all served to intensify the downturn. There was a backlash against austerity in the body politic of a number of countries, which then led to political instability. The political upheaval and changes in leadership prevented appropriate policies from being implemented. The chaotic political leadership in numerous countries made changes in policies difficult and late, complicating the crises. The very fabric of the eurozone arrangement was threatened and remains on shaky ground. The outlook for Europe is cloudy and risky.

Despite some attempts to accommodate, the monetary policy of the European Central Bank (ECB) has been crisis-centered rather than setting up to provide the monetary stimulus that all of Europe needs: a lower key-policy interest rate to weaken the euro, provision of credit to the banking system or companies (as the Bank of England has done) and, particularly, some sort of expansion of the ECB balance sheet. A European-style QE – and a commitment to maintain it until the European economies improve substantially – would help. Unhappily, governments in the eurozone are making this difficult.

On the fiscal side, the prevailing policies of the "troika" – the European Union, European Commission, and International Monetary Fund – have been quite restrictive. And austerity has been counterproductive, as countries in reasonably good financial conditions have hesitated to lend to insolvent ones or to those who might become so. Lender conditionality – as has too often been the case in these kinds of situations – was punishing to a number of economies and made the economic situation a good deal worse.

The failure of the political economy of policy-making to come together has damaged the European situation considerably. There have been long delays in recognizing downturns, in forming policy and in implementing that policy. The dissonance across the leadership in so many European countries as well as changes in governments in several have also contributed to the downturn.

The downturn in Europe, which began towards the end of 2011, has thus spread throughout the continent, touching even countries such as Germany and France. Growth in real eurozone GDP in 2012 was negative, at -0.5%. In 2013, another decline (-0.4%) is forecast. And, in 2014, only a meager recovery is expected – real GDP growth might reach 0.5% in the eurozone and 0.8% in Europe. The ongoing crises and uncertain outcomes of the same remain an impediment to a renewed world economic upturn, given Europe's large role in global trade and finance.

TRADE THE TRANSMISSION MECHANISM. While mild in real GDP terms, the widespread and long European recession poses a significant risk to the US and thus global economy. The transmission mechanisms have been, and continue to be, weakening exports within Europe and elsewhere – particularly the exports of China. China's economic weakness, in turn, has depressed trade flows within and across Asia and this has reduced US exports. In real terms, US exports rose to a new record in the second quarter of 2012 but then slowed, as growth in exports declined. With the US economy growing by 1 to 2%, US import growth has also slowed. This has limited the declines in US real net exports and thus the impact on real GDP in the United States. Nevertheless, fewer US imports means fewer exports for other countries, for whom the United States is a significant end market. Numerous businesses – financial, transactional, and trade-related – have been negatively affected by this trend.

Domestic demand in much of Europe has also weakened as economies have contracted in the face of austerity-driven increases in taxes, reductions in central government outlays, falling pensions, difficult financial conditions, a credit crunch, and the disarray in confidence and politics that such circumstances create. Ultimately, an economy in recession will bottom out and begin to rise again as shifts in growth occur that can ignite an upturn. In the absence of macroeconomic policies to facilitate improvement, however, the European downturn is likely to continue longer than necessary, with some risk even that Europe does not bottom out and recover as expected.

Thus, the European risk to the world economy is that the downturn might worsen even more, leading to yet fewer exports, thereby injecting yet another negative impulse into the Asian economies. Financial conditions would deteriorate more; Spain and Italy might require bailouts in order to stay solvent; and the as yet relatively resilient economies of France and Germany might not remain so. In aggregate, negative impulses to exports stemming from Europe and Asia together would reduce US exports, weaken its industrial sector, lead to less job creation and lost profits, and potentially limit consumer spending – the expected pillar of growth in the Basic Prospect.

THE CHINA RISK. Another macro risk that remains is hesitation in the Chinese economy. While it decelerated significantly over 2011-12 – from near 12% growth, year-over-year, to near 7.5% – that reduction in growth was intentional, motivated by restrictive monetary, fiscal, and regulatory policies. The policy-induced movement from a frothy economy – with inflation in the 6 to 7% range – to a more stable economy – with a more desirable near 2% inflation rate – motivated a sizeable negative impulse to growth throughout Asia in 2012. It was also most certainly a source of weaker growth in German exports and for the European economy.

In 2013, financial excesses in the banking system and in property surfaced, and Chinese policy-makers have been squeezing out these excesses in order to set up for more solid, sustained growth without financial instabilities. The resulting hesitation in growth of the Chinese economy remains a negative risk, given that economy's size relative to the global one. However, China is hesitating to stimulate its economy more until these excesses are worked out. Furthermore, the somewhat slower growth in China has had a ripple effect in Asia and throughout the world economy, principally through trade flows. The lack of an upturn in China weakens commodity prices, hurts commodity exporters, and negatively impacts both Asia and Europe. It also limits growth in US exports, which, in turn, reverberates through the economies of North America and into the world economy, to contribute to a weaker pace of activity.

Probably, China's economic growth rate has now stabilized at near 7.5% and inflation at a very low range of 1 to 2%. But until the financial excesses in China's system are fully squeezed out, growth of the Chinese economy is suspect, and further stimulatory monetary and fiscal policies will likely not be implemented. Finally, the Chinese economy is becoming more consumer-driven and less export-driven. Until these adjustments are made fully, the Chinese economic prospect is for relatively slow growth. This will be a drag on the Asian economies, though there is hope that this effect can be offset by a significant improvement in the Japanese economy.

THE EARNINGS WEAKNESS RISK. Another negative macro risk for the US economy is represented by sharp declines in the growth of revenues and earnings suffered by American companies in the last few quarters. Taking the S&P500 companies as a sample of the US economy, operating earnings from the third quarter of 2012 through the first quarter of 2013 show a sharp deceleration in the growth of revenues and earnings, thereby causing hesitation in business spending and hiring. Whereas revenue and earnings growth in 2011 ranged from high single-digits to low double-digits, S&P500 operating earnings are now growing only on the order of 2 to 3%. Profit margins remain quite good, however, suggesting that productivity improvements are occurring at the company level that have yet to be picked up in the macro data.

In many American business cycles, declines in the growth of company revenues and earnings, with lags, have been precursors to recession. This is because companies tend to cut back on hiring, spending, production and inventories in the face of what might be perceived as permanently lower sales and earnings. Sometimes long lags occur before companies come to such a conclusion. But in more recent business cycles, the S&P500 companies have not hesitated to quickly reduce capital spending and limit hiring on revenue and earnings weakness.

Solid consumer spending and a better US economy, along with a bottoming out of the European downturn, a much stronger Japan and an improvement in Chinese economic growth, would lead to higher US company revenues and earnings, a higher pace of earnings growth, and a stronger American economy. But this is far from assured. The downside risk from continued weak growth in earnings is in the US business sector, where capital spending and hiring would be delayed and the economy would not do so well.

THE FED: MONETARY POLICY A MACRO PLUS. In September 2012, the Federal Reserve launched a version of quantitative easing, keeping short-term interest rates essentially at zero for as long as necessary to achieve an unemployment rate at least as low as 6.5%. In addition, the central bank indicated that it would purchase additional securities for its balance sheet to keep financial conditions supportive to the economy and to the labor market, until sustained improvement was achieved. These financial conditions include the level and structure of interest rates, the US dollar, the equity market, and various other derivative effects that flow from Federal Reserve actions to impact these and other asset prices. Having set targets for "full employment" (5.2 to 6%) and "price stability" (2% inflation), the Fed's promise, if stuck to, means "permanence" for easier monetary policy. It is an open-ended policy that should hold until the stated conditions are met.

Research at the US central bank and elsewhere suggests that QE has been successful in reducing interest rates, lowering the US dollar, and raising stock prices. This, in turn, has helped to stimulate a strong expansion in housing, a substantial improvement in the financial condition of households, and thus, ultimately, a stronger economic expansion. Improvement in household financial positions is a prerequisite to stepped-up consumer spending.

This open-ended QE, having virtually guaranteed that short-term interest rates will remain close to zero into 2015, portends a period of relatively low long-term interest rates. Low interest rates make a currency relatively less attractive compared with other currencies where interest rates might be higher, or are expected to move higher. Lower interest rates help stock valuations. Long-term interest rates affect the cost of capital, hurdle rates and investments, and low long-term interest rates – particularly mortgage rates – lead to stronger housing activity, higher housing prices, an increase in household wealth, and greater consumption.

JAPAN IS BACK: A BIG PLUS. One of the biggest changes in the global economy is taking place in Japan. After years of slow economic growth, price deflation, negative consumer psychology, reduced consumer spending, rising public sector deficits, skyrocketing debt-to-GDP, and a declining stock market – all of which meant that Japan was a drag on Asian and world economic growth – the land of the rising sun is finally back in the game. Political change and new policies promise to radically change the country's situation and how it interacts with other countries in the world economy. The force behind the exceptionally sharp downturn for the yen – whose inflated value had weakened the Japanese trade surplus, slowed exports, increased imports, and maintained price deflation – was the increased holdings of securities on the balance sheet of the country's central bank, occasioned by an attempt to reflate the Japanese economy through doubling the monetary base over the next two years. The sharp decline in the currency, in turn, has stimulated the Japanese stock market, helping exports to improve, and has raised consumer sentiment, encouraging surprisingly strong consumer spending already in 2013.

The Japanese currency still has a long way down to go. But, already, the effects of a 25 to 35% decline against many other currencies are evident in a strong first quarter of real economic growth (in excess of 4%), improved exports, a surging stock market, and better consumer and business sentiment. In addition to the major shift in monetary policy, the new government, headed by Prime Minister Shinzo Abe, is providing a large dose of fiscal stimulus – almost 100 billion yen – and promising major reform, especially deregulation, later in 2013. The combination of monetary stimulus, a declining currency, fiscal stimulus, reform, and changes in the political and societal atmospherics of the country suggest an historical change in Japan of considerable significance. The bottom line is much higher real economic growth, a major stimulus to the economies of Asia (including China), and subsequent positive effects on the rest of the world economy.

From a recession in the second half of 2012, the Japanese economy has lifted up to a near 3% rate of growth in the first half of 2013 and could well move even higher in 2014. Deflation – entrenched in Japan and in the psyche of households and businesses – is beginning to end, with the latest Japanese price inflation result unchanged from a year ago. This trend will likely give way to positive inflation, increased economic growth in Japan and an improving labor market. Higher input costs and the consequent increases in prices should also help put an end to Japanese deflation.

This seismic shift in the world's third largest economy should bring about increased economic growth throughout Asia and then, because of the size of Asia in the global economy, a better prospect for all. Whenever the economy of a country shifts from low growth to high growth or vice-versa – as in the case of China during 2011 – major movements in the economies of other countries will follow.

THE US BUDGET DEFICIT AND SOVEREIGN DEBT CRISIS NO LONGER A WORRY. For some time, another risk to the US economic prospect had been outsized federal budget deficits and growing public debt, which reached a $1.3 trillion deficit and over a 100% ratio of gross debt-to-GDP in 2012. The deficit and sovereign indebtedness of the United States made it impossible for the federal government to engage in any further net fiscal stimulus to a very weak economy. This, indeed, is the fallout from austerity imposed by the financial markets and economic forces rather than "voluntary" deficit reductions.

Perhaps surprisingly, however, and despite the twists and turns in Washingtonian politics, progress has been made on the US federal budget deficit and its debt-to-GDP prospect. As a consequence of several restrictive fiscal actions over the past few years – the Budget Control Act of 2011 ($1 trillion over ten years of reductions in the caps on discretionary federal government spending), the $1.2 trillion sequester last year, and $600 billion in tax increases – the US federal budget deficit has been diminishing. Also, cyclical improvement in the economy is helping tax receipts and contributing to deficit reduction. The gross public debt-to-GDP ratio has improved somewhat as well, although it is still awaiting stronger growth in nominal GDP in order to move to substantially lower ratios. These actions – totaling almost 3 trillion dollars in deficit reductions over ten years, along with cyclical improvement in the US economy and in tax receipts – have caused the risk of America's deficit and sovereign debt problem to fade. Indeed, there is potential for positive surprises now, especially if federal government purchases and outlays continue to be reduced.

Damage is being done, of course, in that restrictive fiscal actions and fiscal consolidation also limit growth in the US economy. But the possibility of a sovereign debt crisis in the United States is now remote. In addition, the fiscal restraint will undoubtedly induce a longer period of accommodative monetary policy from the Federal Reserve, in a policy mix that promises to have a positive long-run impact on the US economy.

GEOPOLITICS. Yet another risk to the Basic Prospect lies in potential conflict in the Middle East and the ongoing societal and political turmoil there. The latest example of this is the renewed upheaval in Egypt, with all the uncertainty that brings. The possibility of confrontation anywhere in the Middle East conjures up images of rising crude oil prices and the economic and inflationary damage that would ensue.

Obviously, the possibility of an all-out conflict between Israel and Palestine and/or between Israel and Iran represents an ongoing geopolitical risk to the United States and its allies. Any confrontation that might lead to restrictions in the supply of oil or higher crude oil prices is the nub of the risk. Spikes in oil prices lead not only to higher energy costs but to higher prices across a wide spectrum of goods and services. These, in turn, restrain the consumer, with a consequent adverse impact on business and economic growth.

The recessionary thrust of any oil-price spike emanating from a crisis in the Middle East is cause for concern and caution. That is what occurred in 2007-09, following an unbridled increase in crude oil prices. However, to be fair, other economic and financial disruptions were also occurring at that time, so that high crude oil prices only aggravated a situation that was already weak.

OVERALL OUTLOOK: SUNNY. For the US economy – and thus to a great extent the global economy – the outlook appears reasonably bright for 2013 and beyond. Principally, this stems from a long period of adjustments for the American consumer, perhaps now set to lift spending in the aggregate and therefore to send the US economy into a higher growth orbit.

Naturally, a number of macro risks surround any relatively sanguine outlook, and they need to be resolved favorably for the global economy to sustain expansion at a stronger pace in 2013 and 2014 than in 2012. However, if the US consumer sustains the upturn, helped by a strong housing recovery, if the European recession bottoms out and the continent begins to recover, if Japan and eventually China revive to take Asian economies up along with it, then so will all the global economy rise, leading the world out of its financial difficulties.

[1] The economies of the European countries in recession comprise a larger portion of global GDP than China, the second largest economy in the world. Japan and China together, however, are a bigger portion of the global economy than Europe.