

Life After Brexit

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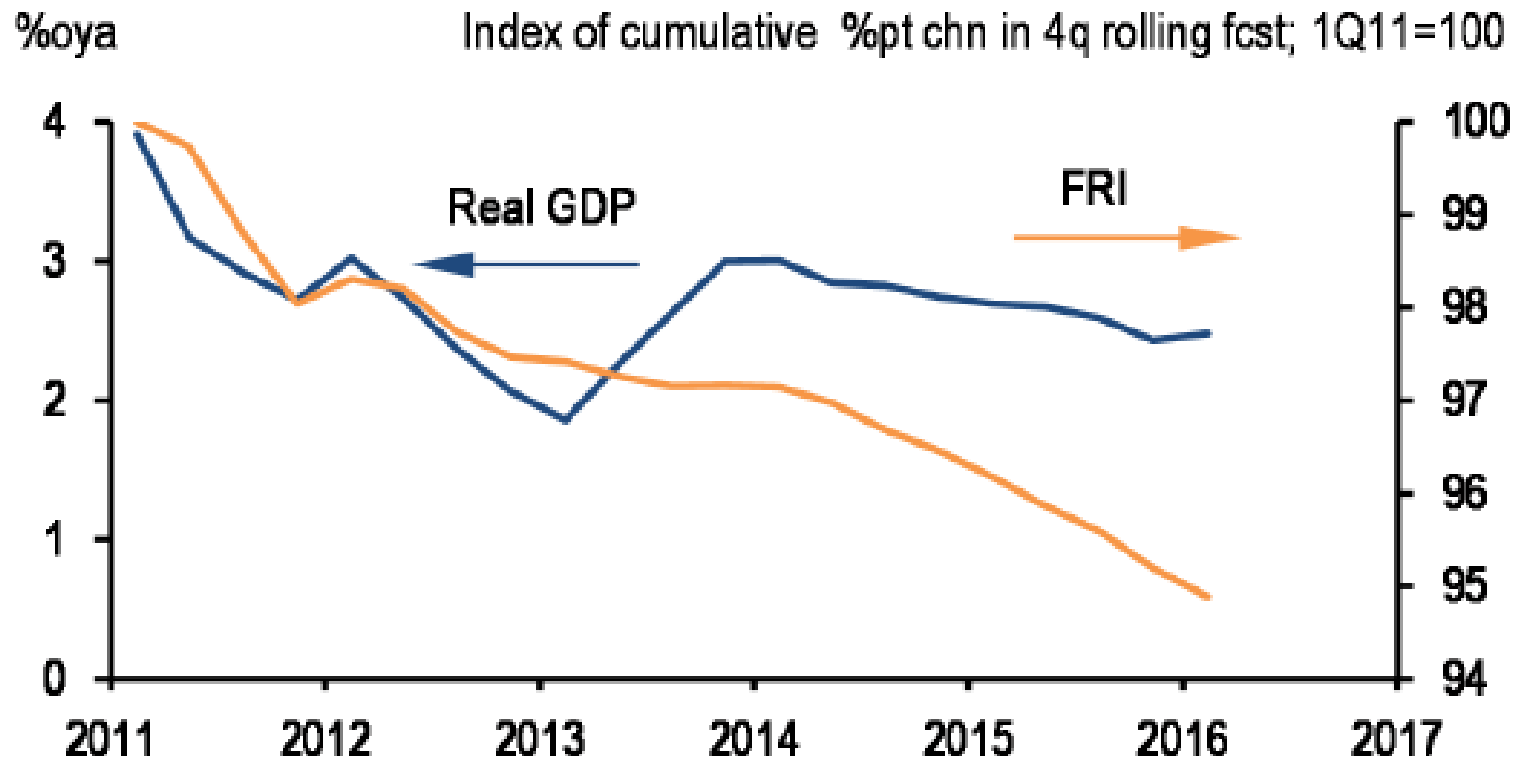
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Global performance: Disappointing but resilient

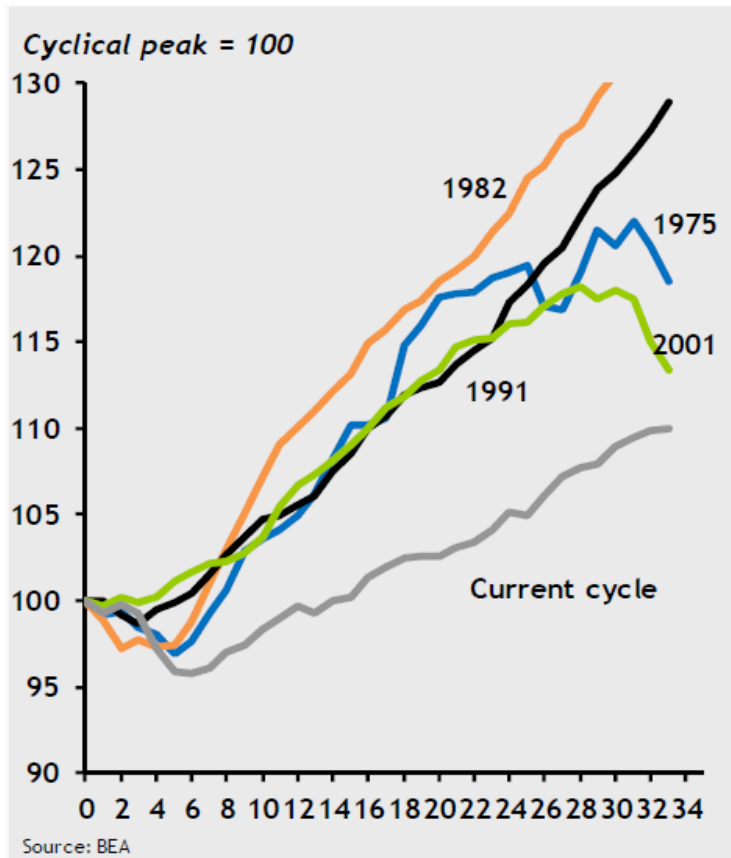
Figure 1: Global real GDP and forecast revision index (FRI)



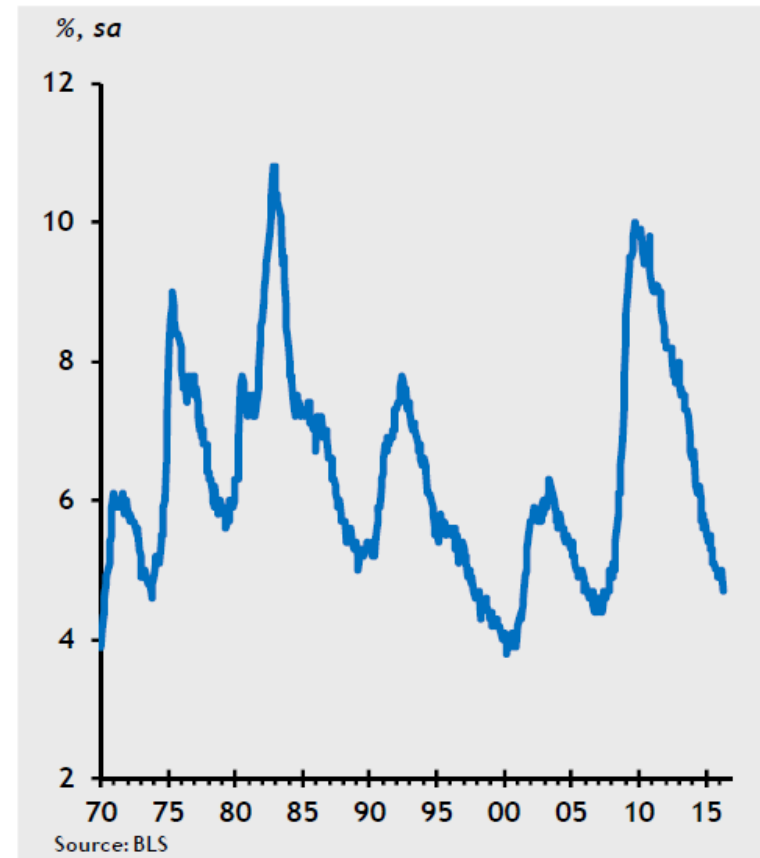
Source: J.P. Morgan

U.S. recovery has lagged prior cycles; even so, labor market is at full employment

Real GDP growth across expansions



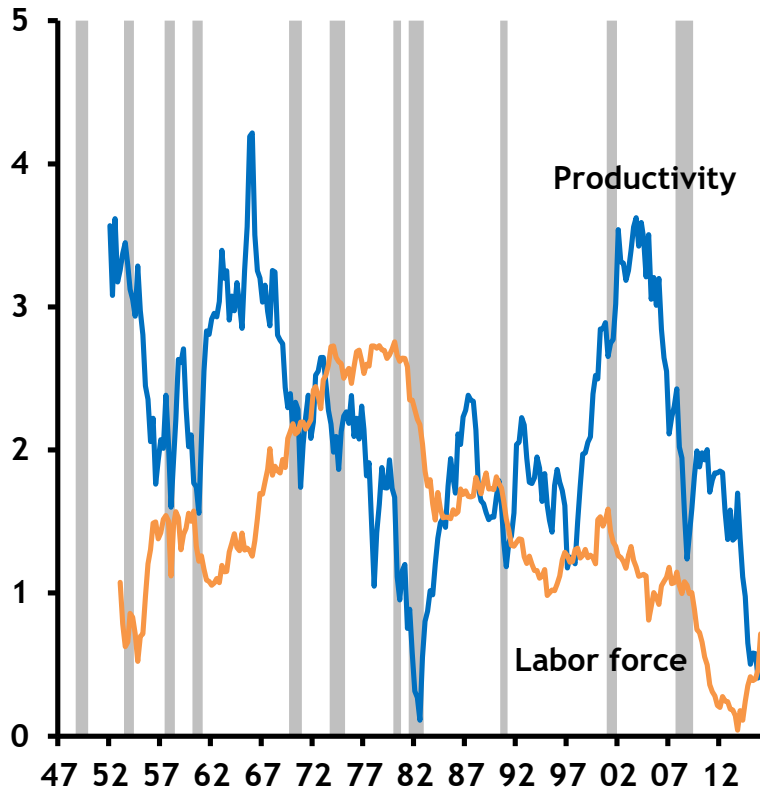
Unemployment rate



U.S. potential growth slides to 1.4%

US labor supply and productivity

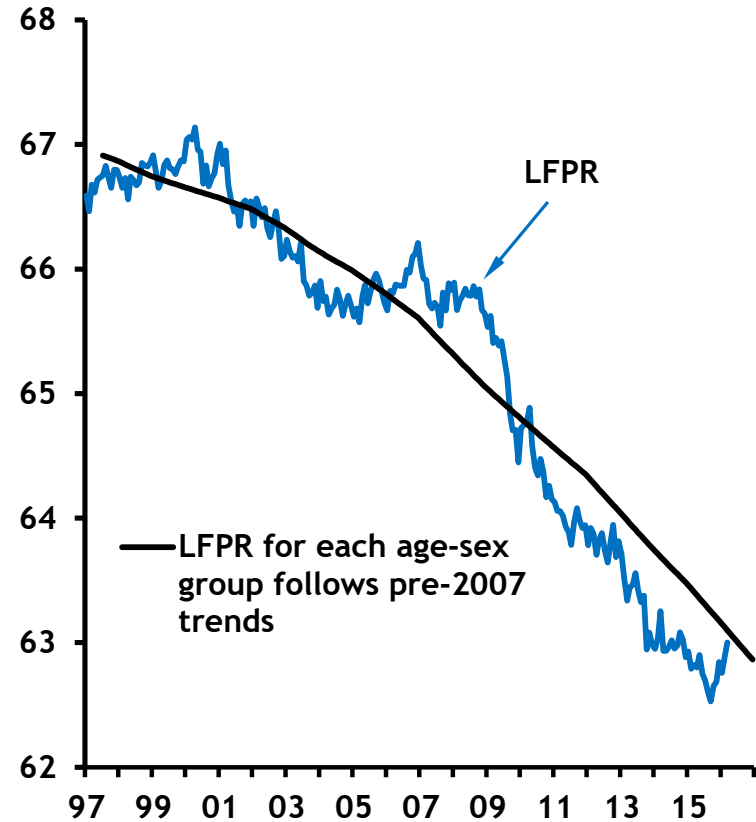
%ch at annual rate over 20 quarters



Source: BLS and J.P. Morgan

Total LFPR and simulations under alternative scenarios

%, sa

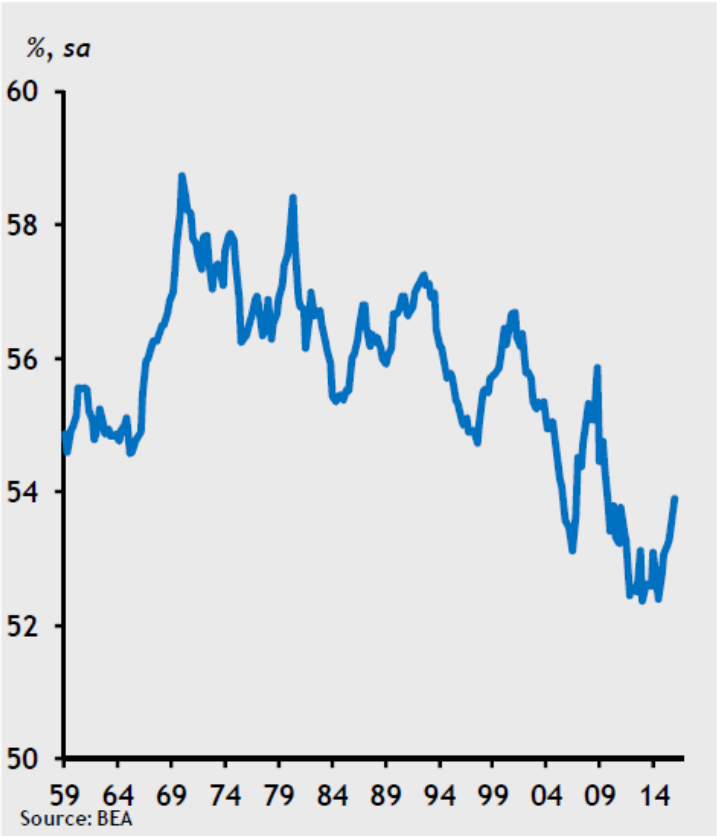


Source: BLS, J.P. Morgan

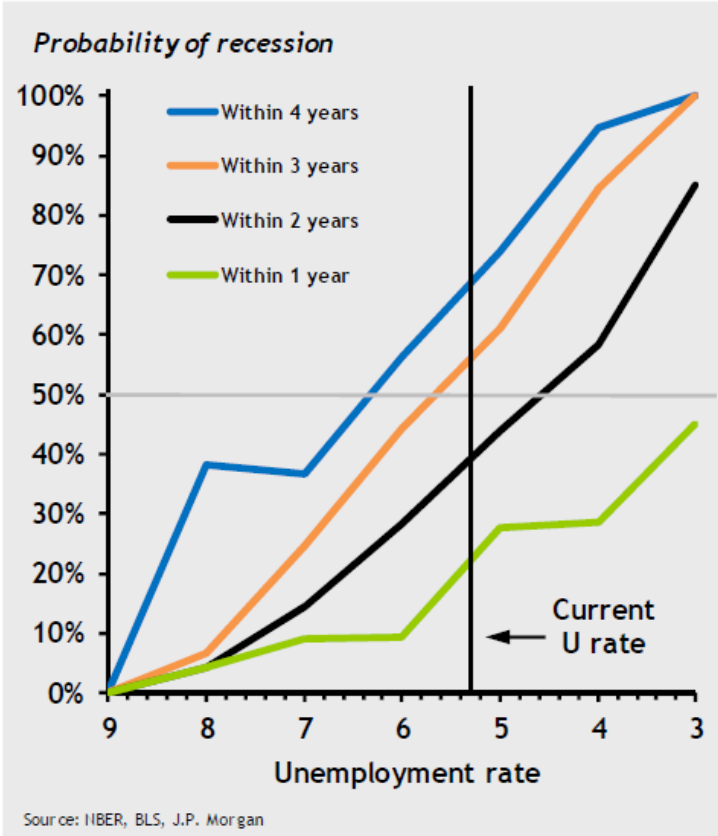
Source: BEA

Labor share of income remains near secular lows, cyclical highs

Labor share of domestic income



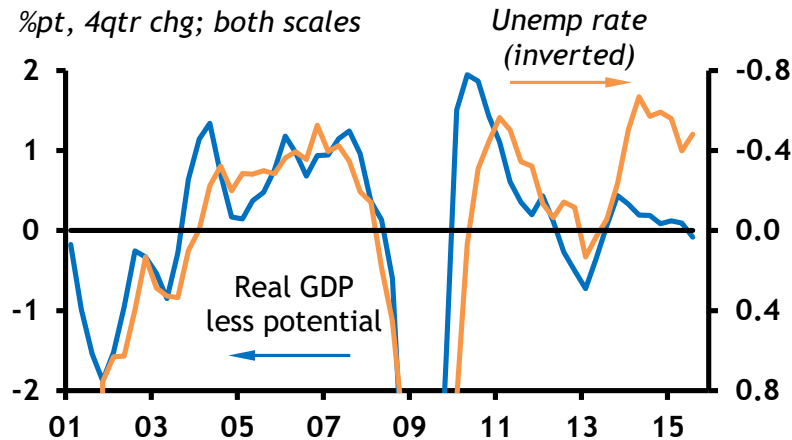
Probabilities of recession vs. unemployment



Constrained: A dramatic global supply slide

Global: Okun's law

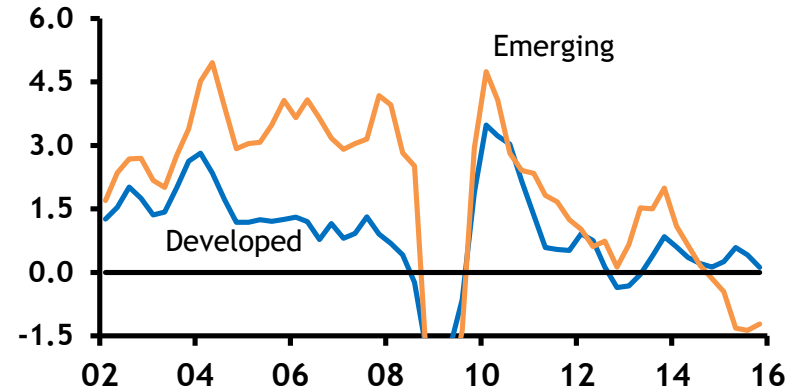
%pt, 4qtr chg; both scales



Source: J.P. Morgan

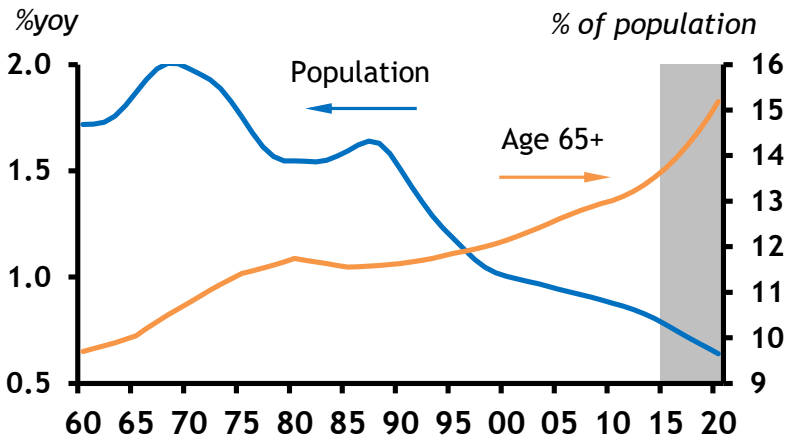
Labor productivity

%oya; estimated as real GDP growth less empl. growth



Source: J.P. Morgan; Excludes China, India.

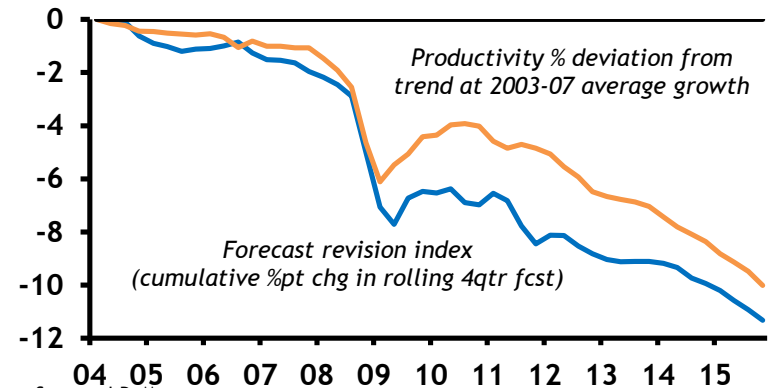
Global population and old age share



Source: J.P. Morgan; United Nations

Growth forecast and productivity disappointments, Global

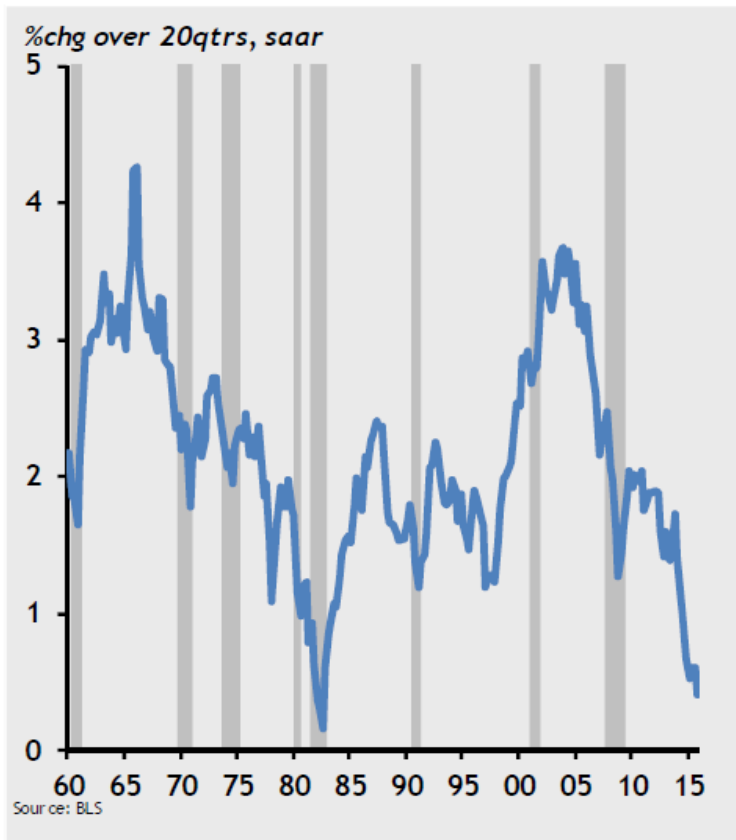
%; 2004 base year



Source: J.P. Morgan

Productivity slowdown is pervasive

Growth in nonfarm labor productivity



GDP per hour worked: G-10 members

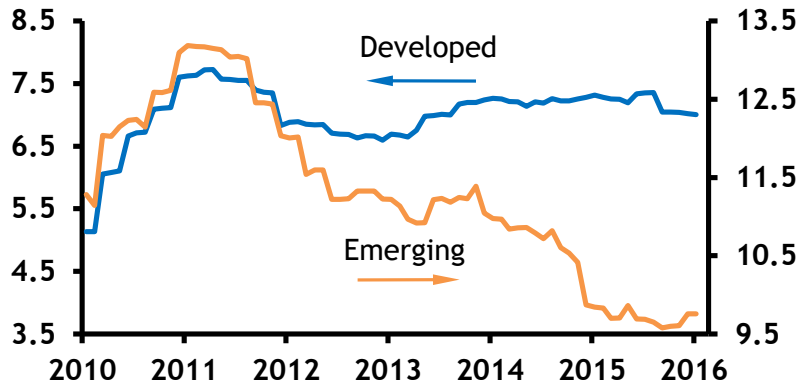
	1997-2004	2005-2014	change
Sweden	2.8	0.5	-2.3
United Kingdom	2.4	0.4	-2.0
United States	2.7	1.0	-1.7
Netherlands	1.8	0.4	-1.4
France	2.0	0.7	-1.3
Japan	1.9	0.8	-1.1
Belgium	1.2	0.4	-0.8
Germany	1.5	0.8	-0.8
Canada	1.5	0.9	-0.6
Italy	0.5	0.0	-0.5
Switzerland	1.0	0.9	-0.1

Source: OECD, J.P. Morgan

Divergent: EM needs to unwind excesses, DM heals

Corporate profit margins

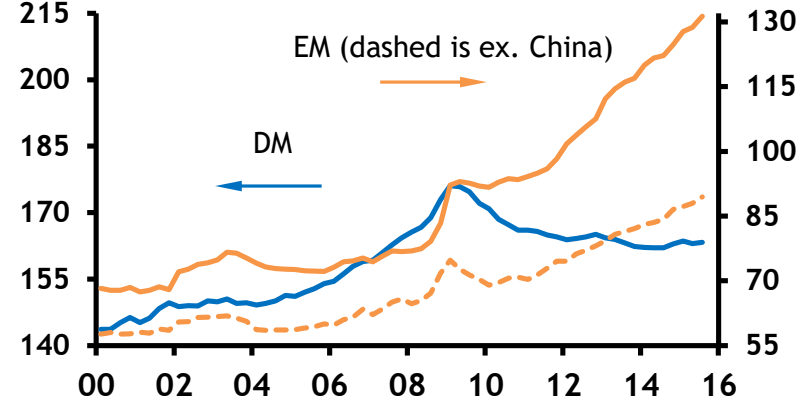
Profits as % of revenue, both scales (rolling monthly)



Source: J.P. Morgan, MSCI; defined as 12m EPS/Sales per share

Broad private non-financial credit

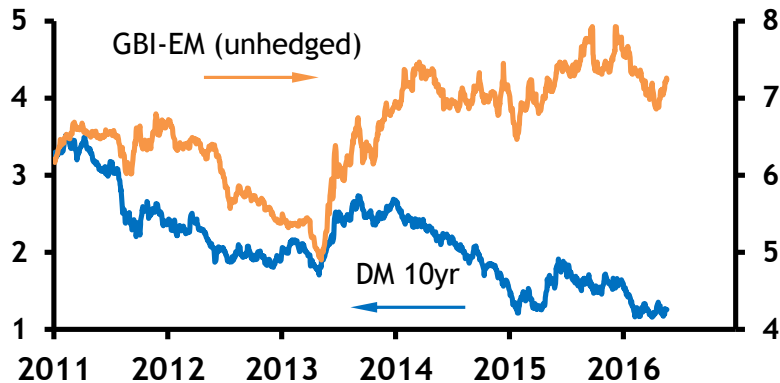
% of GDP; both scales



Source: J.P. Morgan, BIS, IMF

Sovereign yields

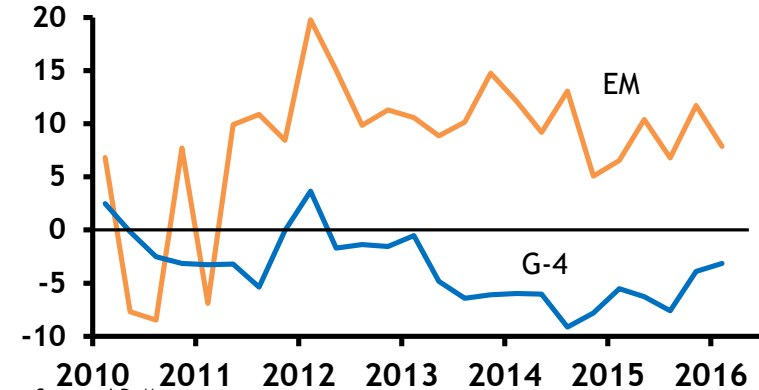
%pa; both scales



Source: J.P. Morgan

Credit standards, as reported by banks

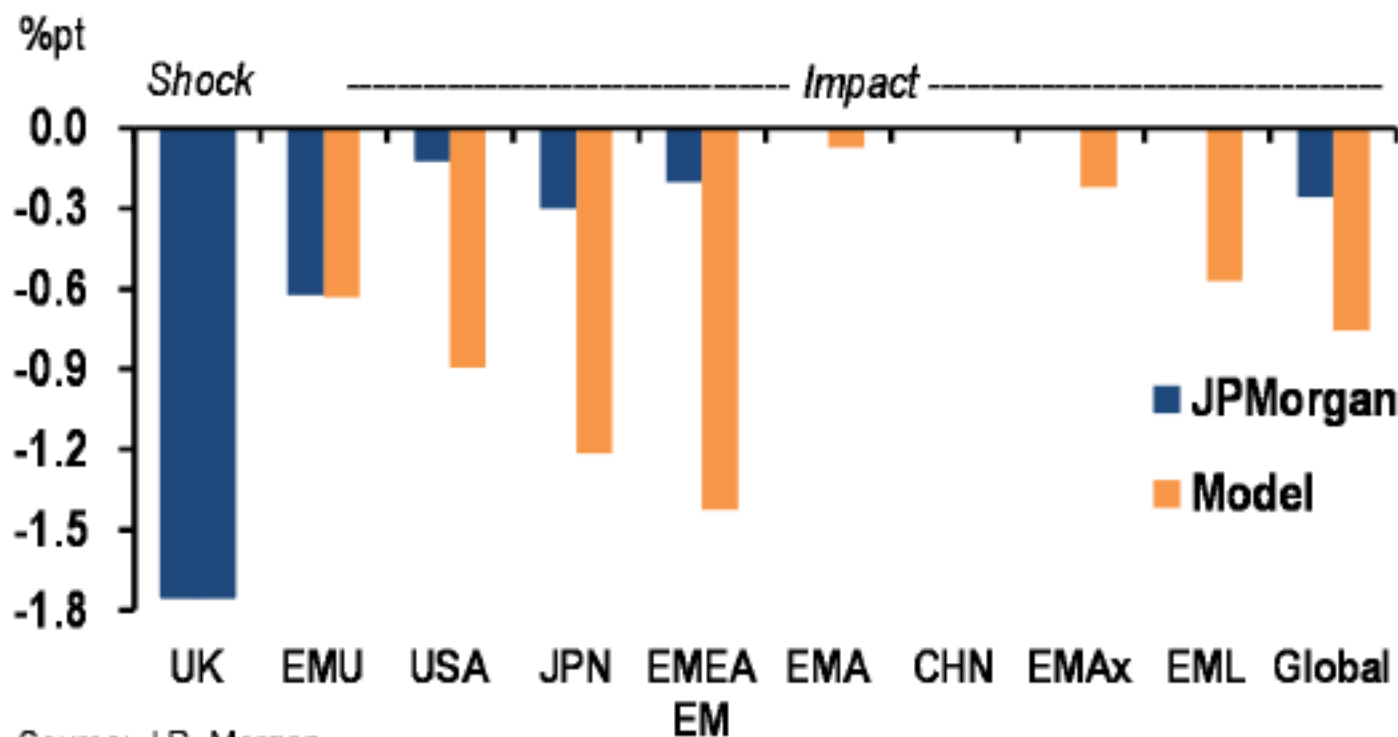
% balance; above zero indicates tightening



Source: J.P. Morgan

Limited non-Euro growth impact from Brexit; model betas less applicable to idiosyncratic shock

Figure 2: Real GDP impact from Brexit, 3Q16-2Q17

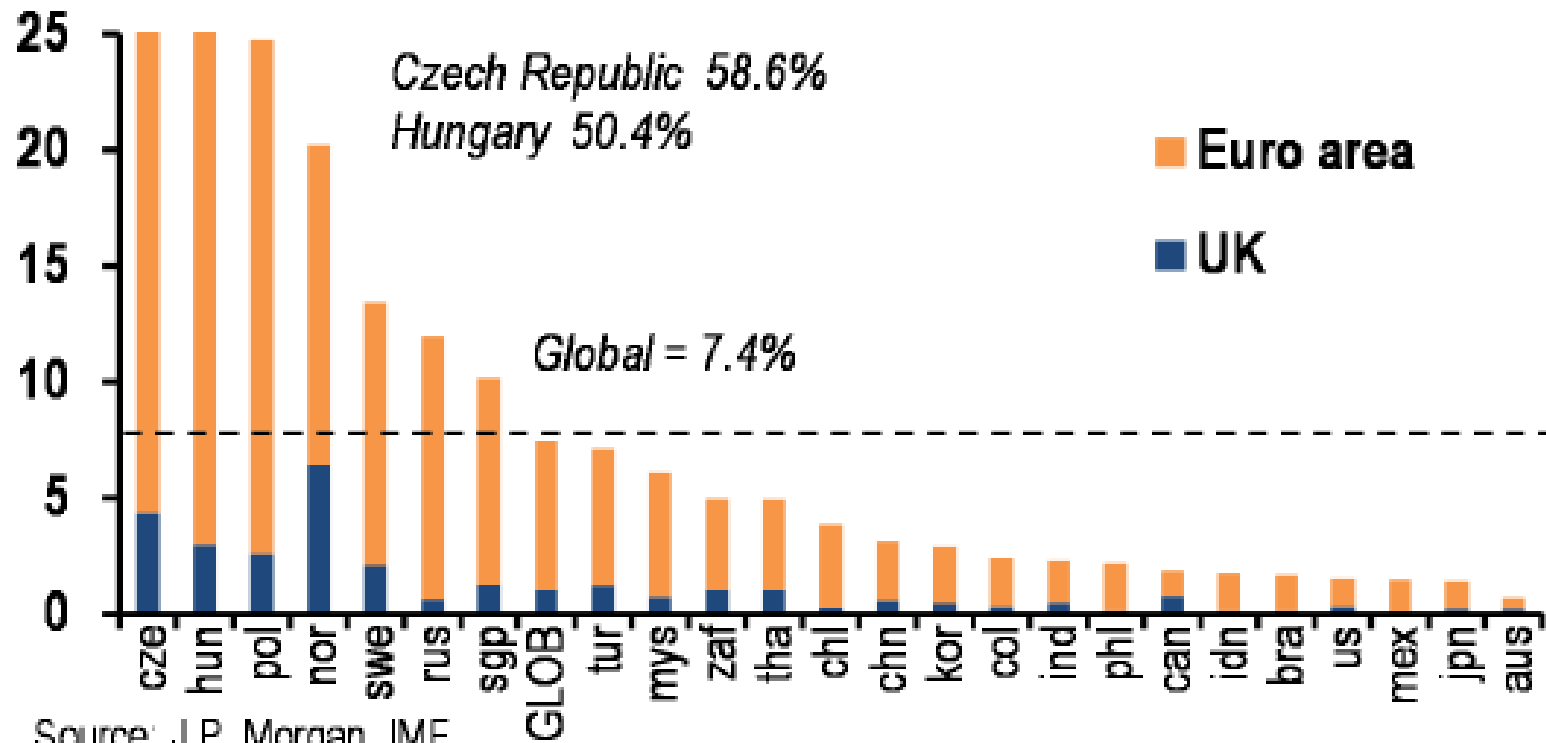


Source: J.P. Morgan

Small transmission through trade channels

Figure 3: Merchandise exports to UK and Euro area

% of country GDP

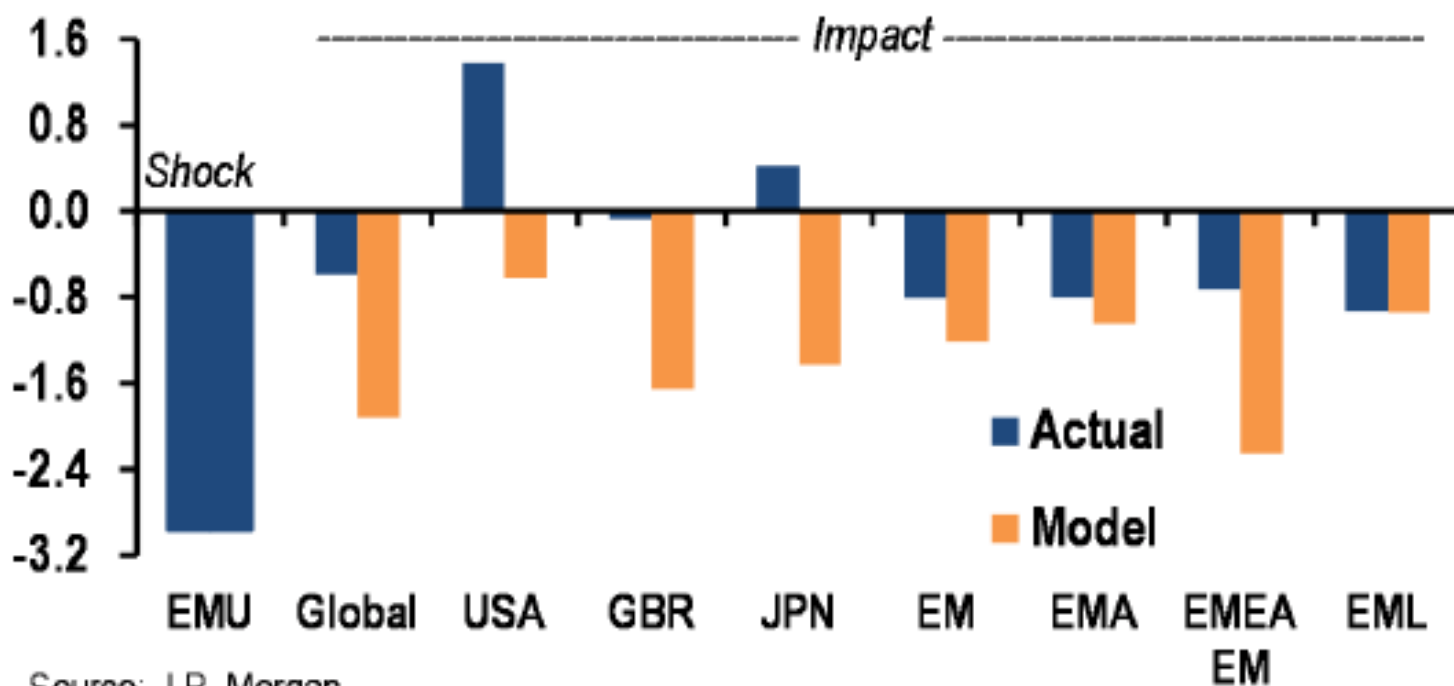


Source: J.P. Morgan, IMF

EMU recession as another regional shock

Figure 4: Real GDP impact from Euro area recession, 4Q11-1Q13

% deviation from potential

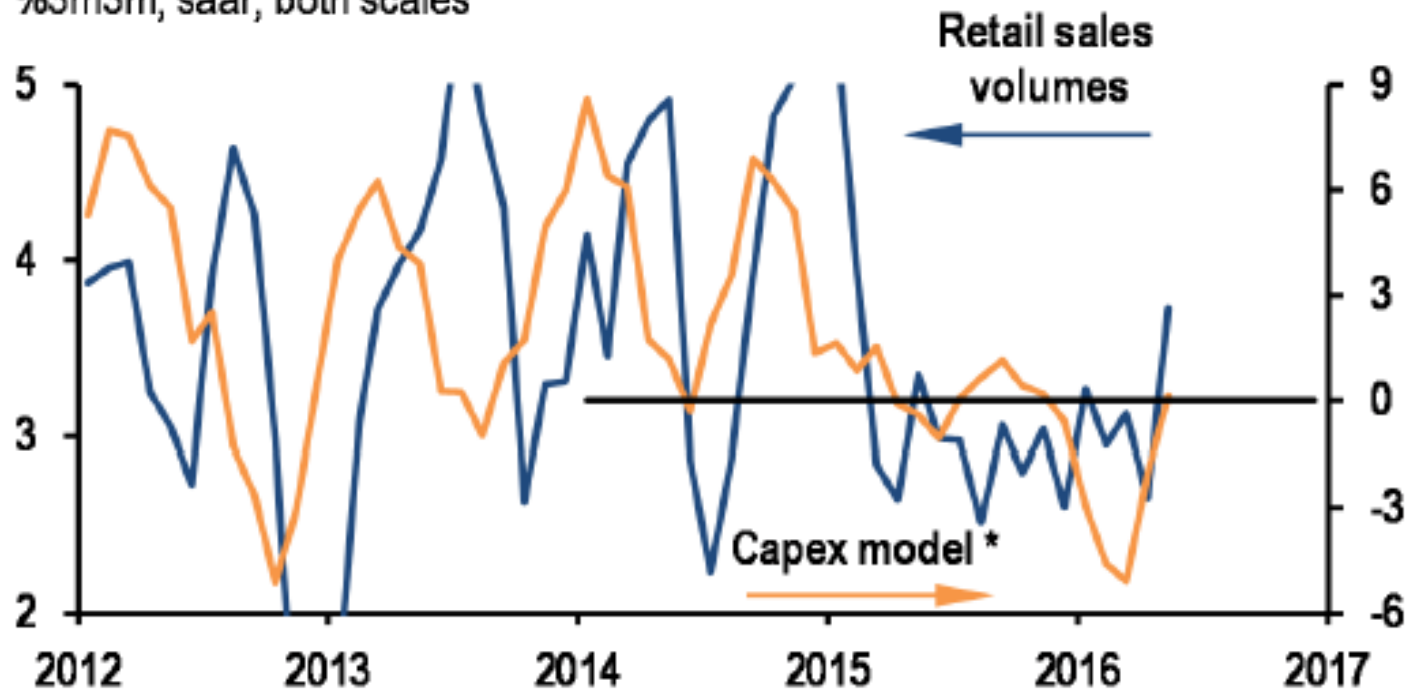


Source: J.P. Morgan

Context: signs of lift into mid-year

Figure 5: Global goods demand

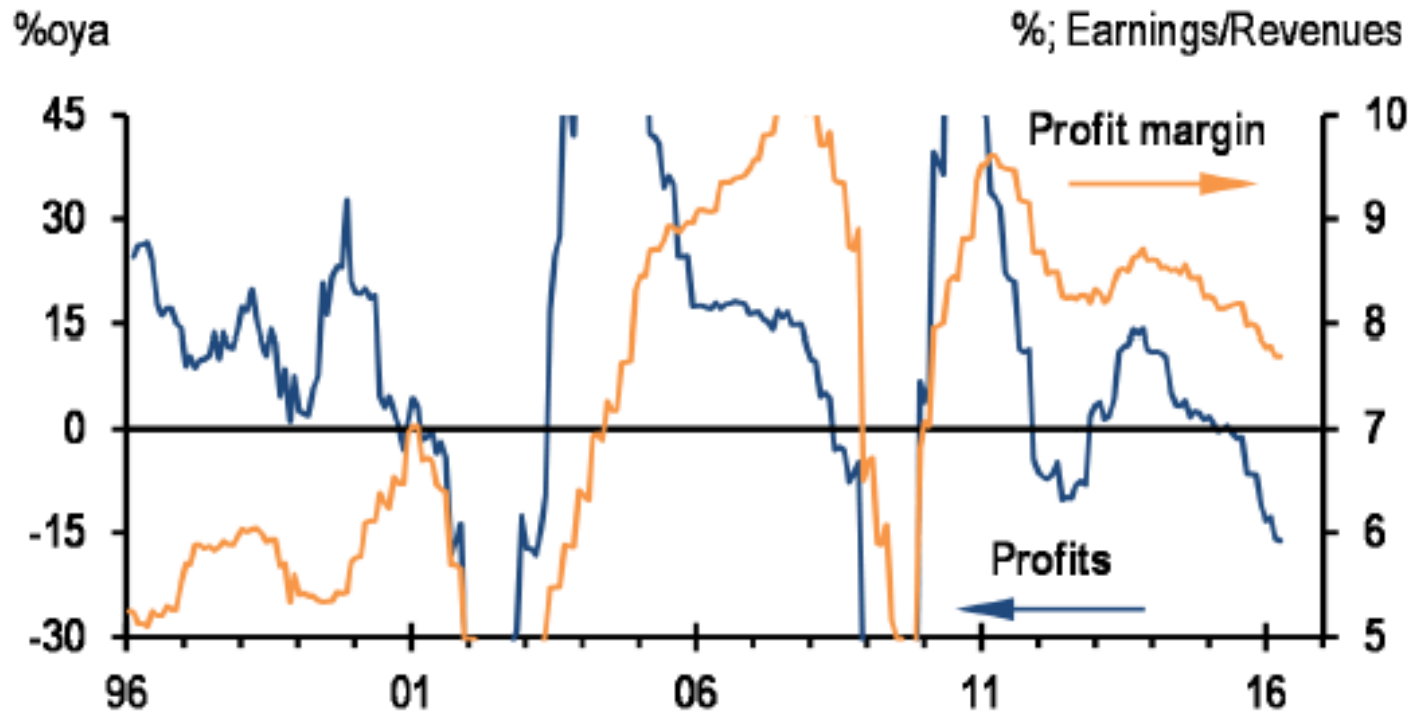
%3m3m, saar; both scales



Source: J.P. Morgan; * Model based on global imports and G3 shipments of capital goods

Risk: global corporates look vulnerable

Figure 6: Global corporate profits and profitability

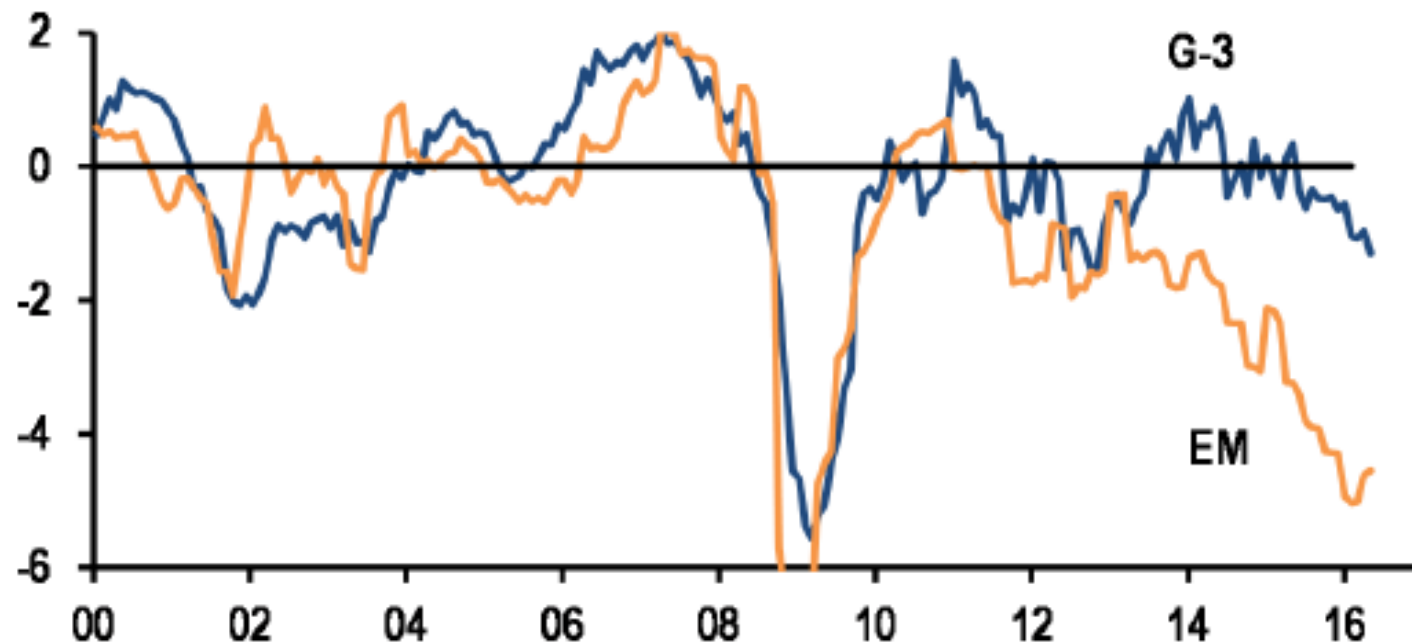


Source: J.P. Morgan

Manifested in falling business sentiment

Figure 7: Business confidence

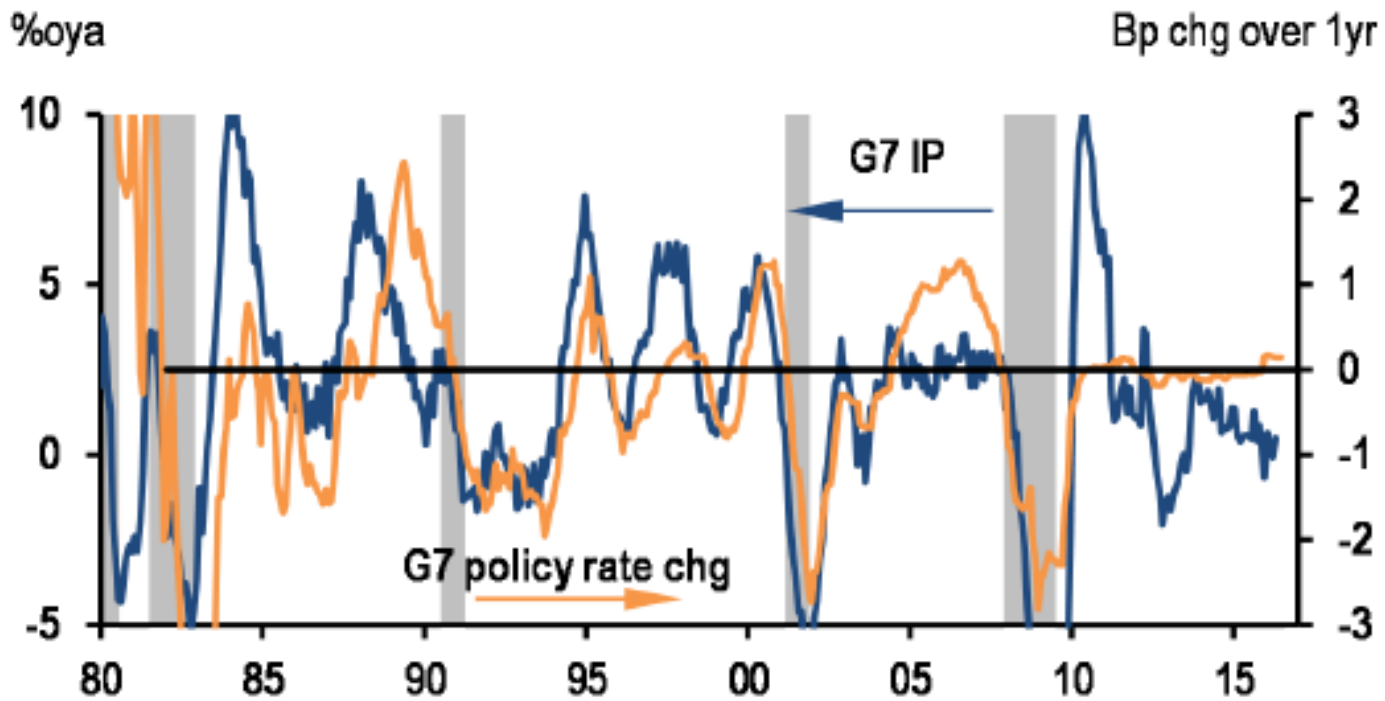
Std dev from mean



Source: J.P. Morgan

Policy support is coming, but space is limited

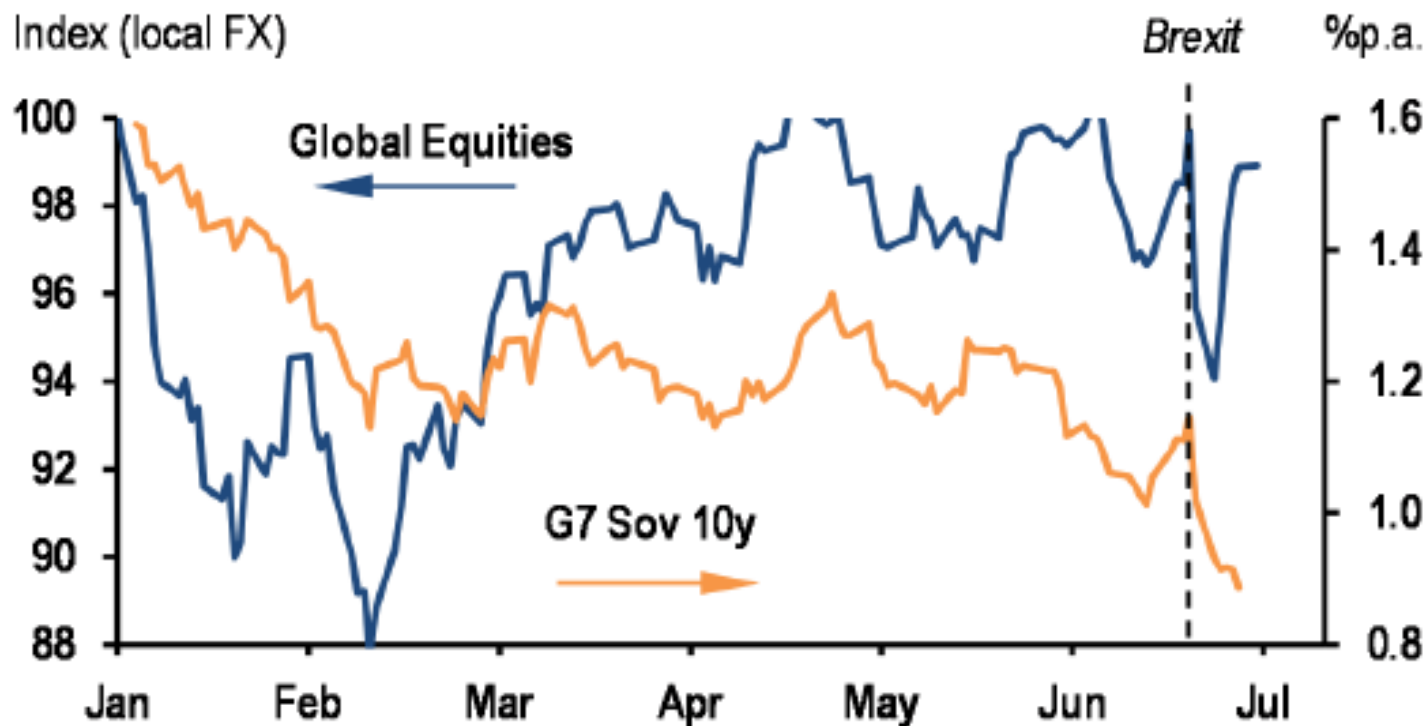
Figure 9: G7 manufacturing and policy rates



Source: J.P. Morgan

Markets shrug off Brexit...for now

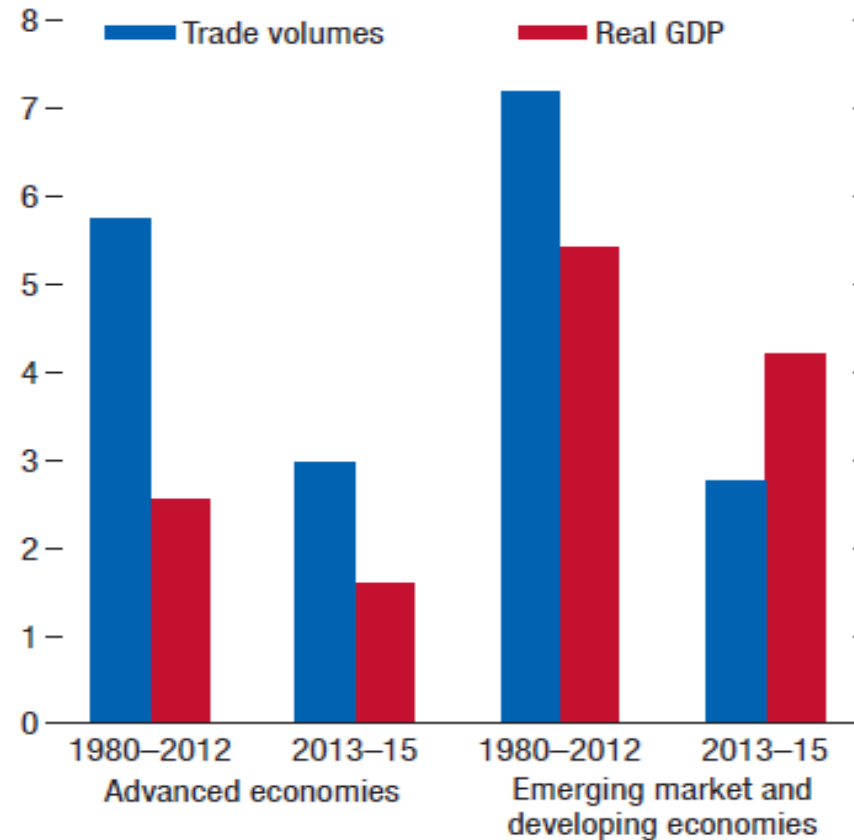
Figure 10: Global equities and G7 sovereign yields



Source: J.P. Morgan; MSCI

Bigger risk: accelerates protectionism and de-globalization

Figure 1.1.1. Trade and Output Growth
(Year-over-year percent change)



Source: IMF staff calculations.

Brexit: reading the tea leaves

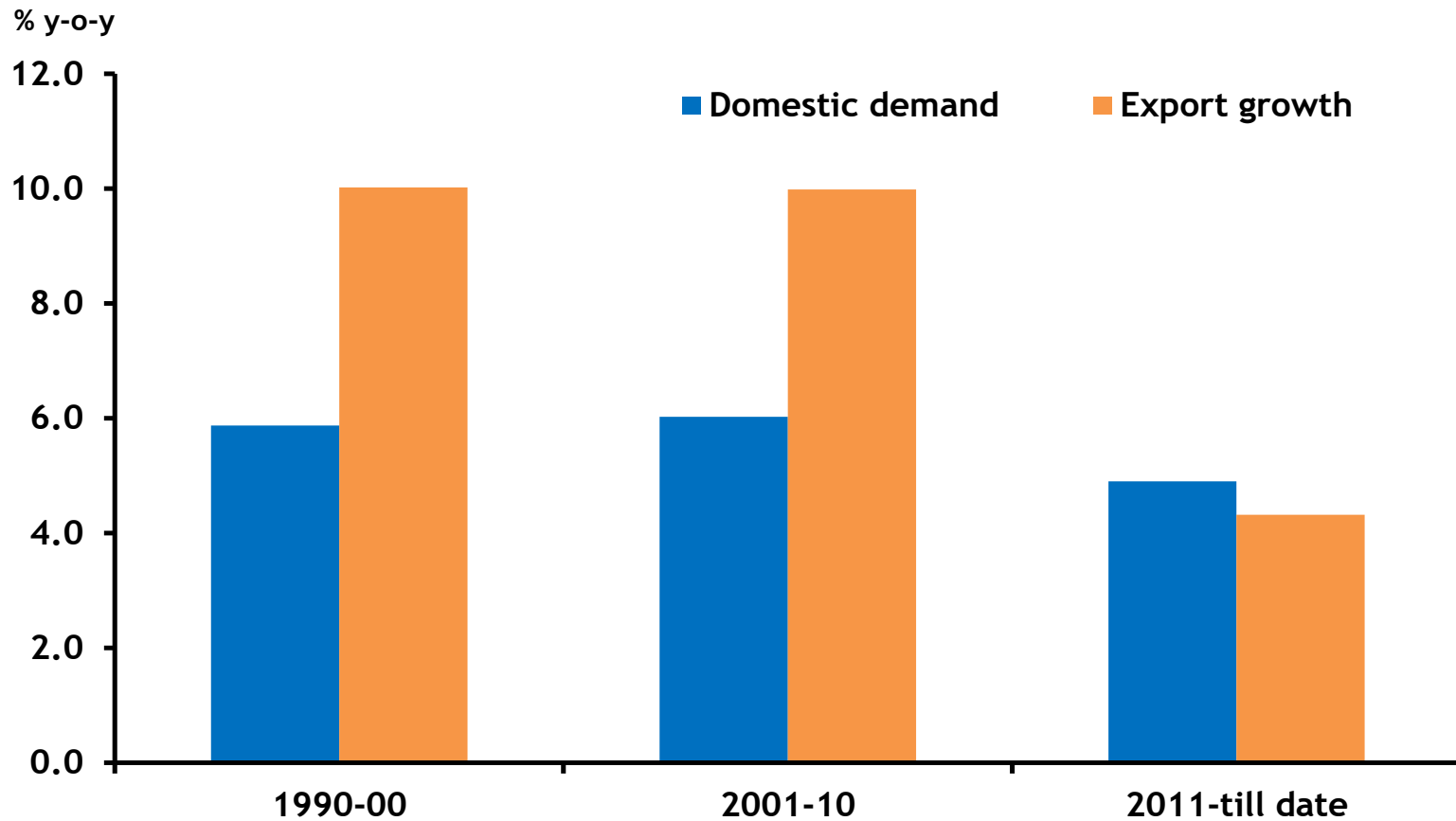
The way the UK voted in the EU referendum

%

	Remain	Leave
Result	48	52
Gender		
Male	47	53
Female	49	51
Age		
18-24	71	29
25-49	54	46
50-64	40	60
65+	36	64
Education level		
GCSE or lower	30	70
A-Level or equiv.	50	50
Degree	68	32
Household income		
<£20,000	38	62
£20,000-£39,999	47	53
£40,000-£59,999	58	42
>£60,000	65	35

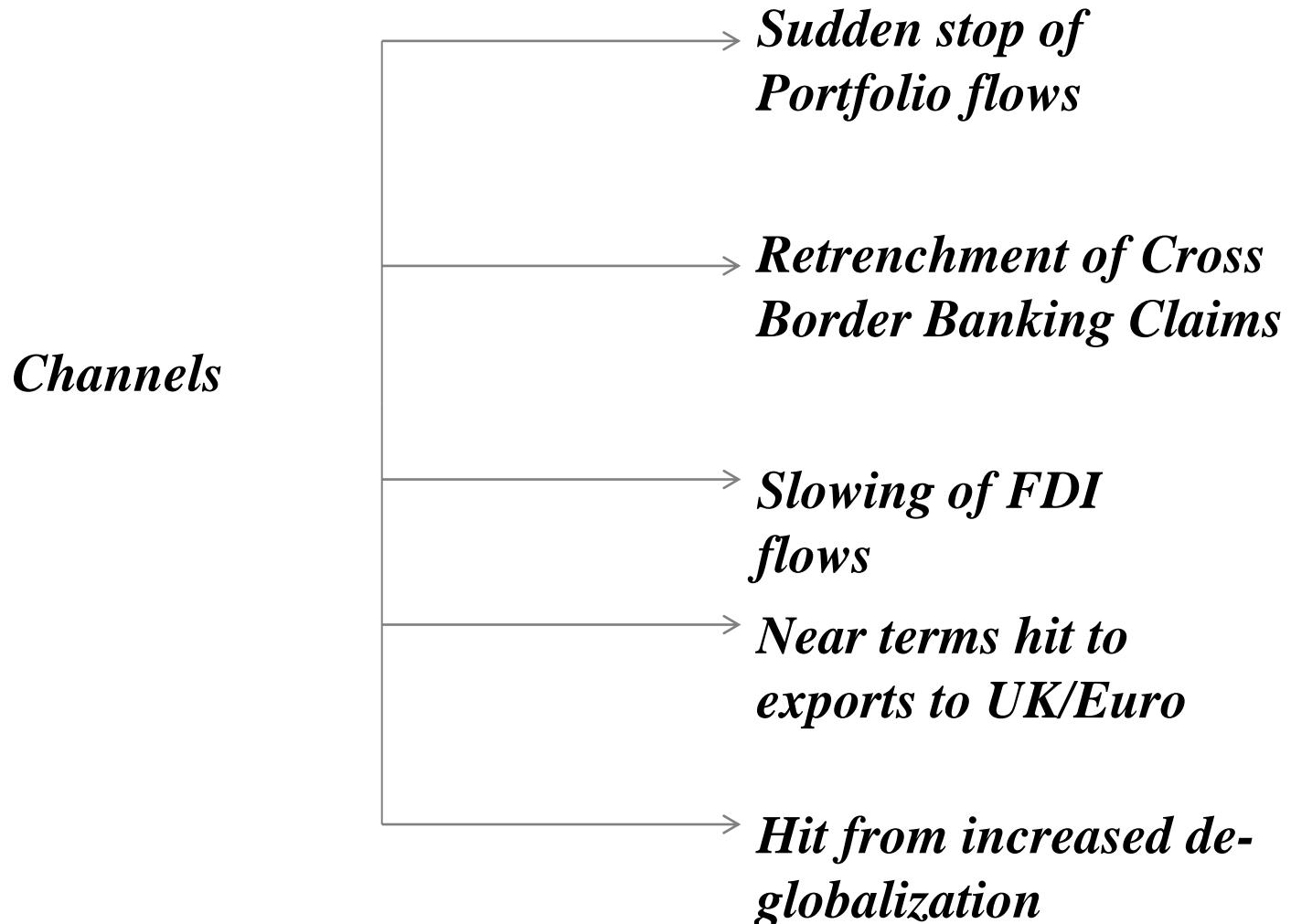
Source: YouGov

Exports were a key driver of EM growth



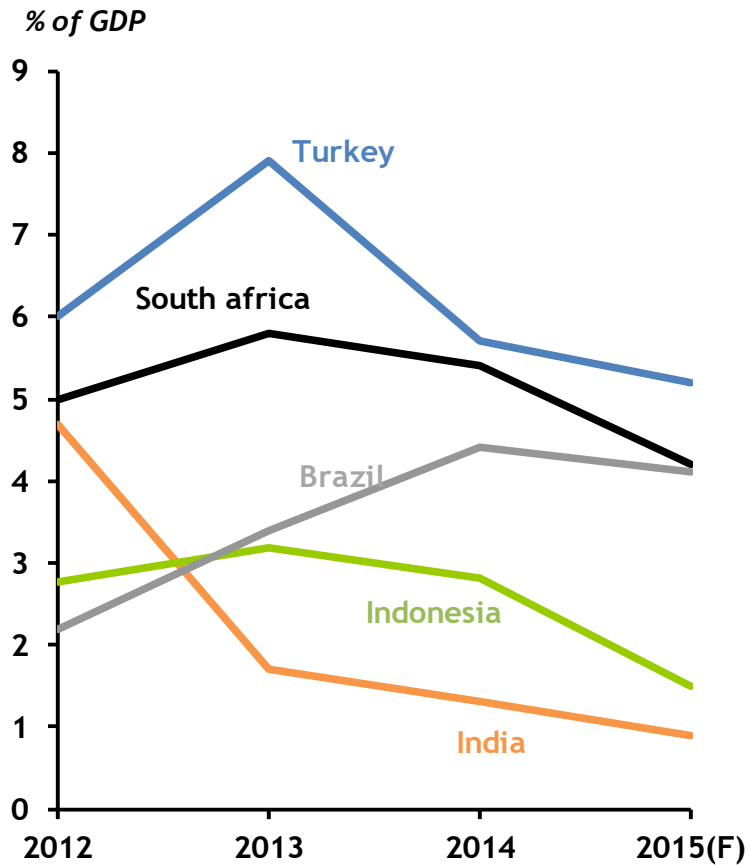
Source : CEIC, J.P. Morgan calculations

India: modes of transmission from Brexit

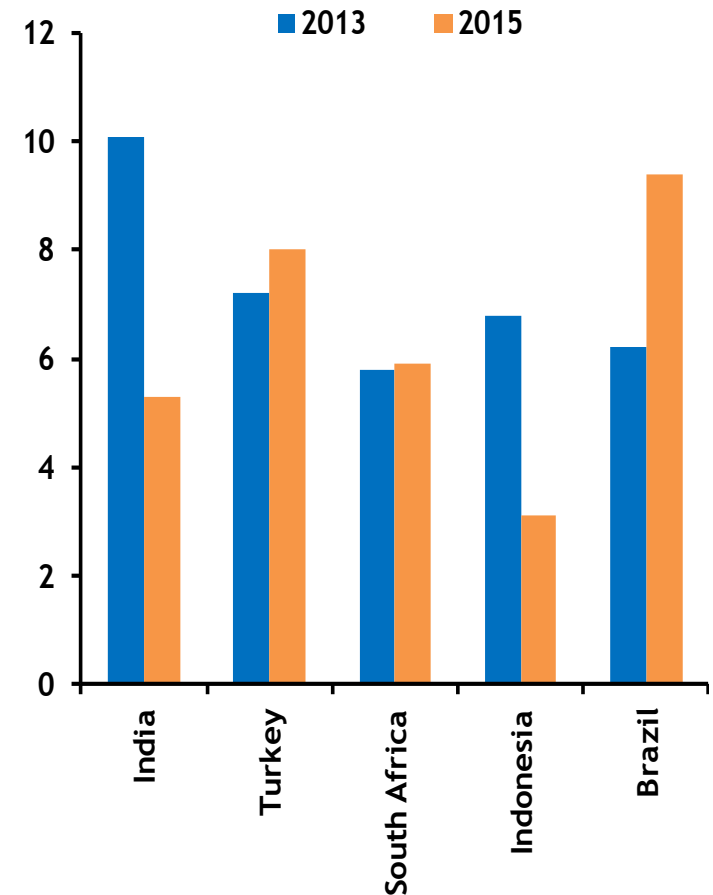


India: excess are reined in after the taper-tantrum

Current account deficit



CPI inflation

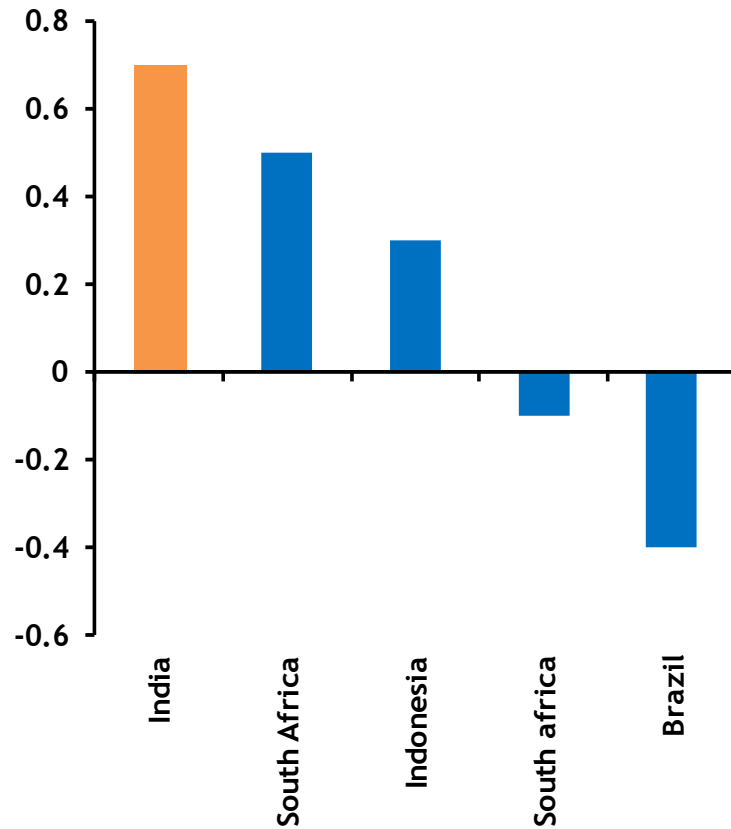


Source: Bloomberg, J.P. Morgan calculations

Underpinned by sound fiscal and monetary policies

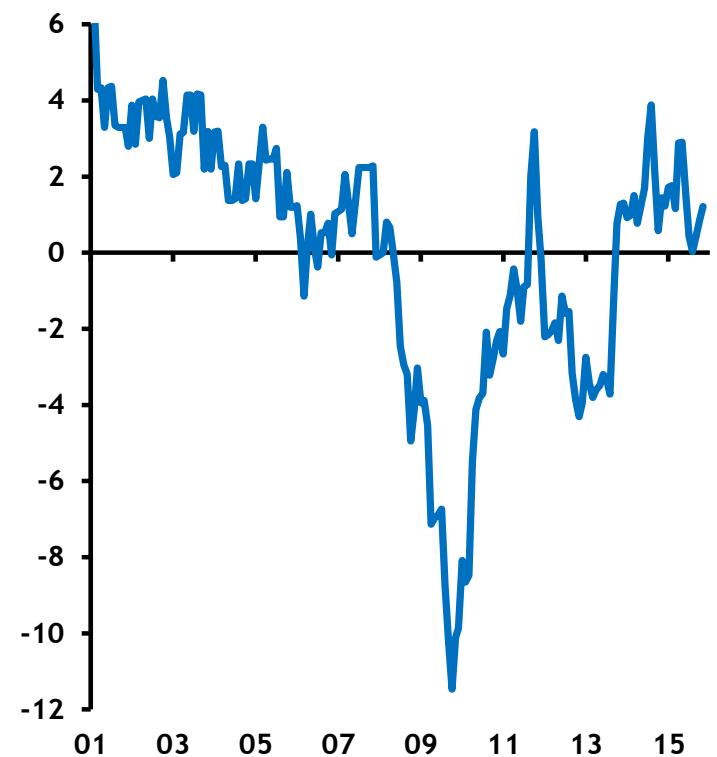
Fiscal adjustment (2013 to 2015)

% of GDP, positive = fiscal consolidation



Real policy rate

% deflated by CPI IW



Manifested best in the balance of payments

India: Balance of Payment

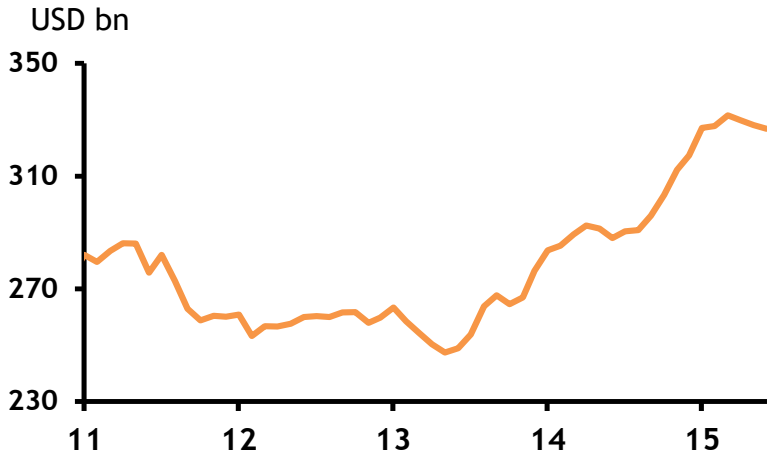
US\$ billion

	FY13	FY14	FY15	FY16	FY17F
Current a/c balance	-88	-30	-28	-22	-30
<i>% of GDP</i>	-4.8	-1.6	-1.3	-1.1	-1.4
Merchandise trade balance	-196	-146	-144	-130	-141
<i>% of GDP</i>	-10.7	-7.8	-7.5	-6.3	-6.4
Exports	307	318	317	266	276
Imports	502	464	461	396	417
Oil imports	164	165	138	83	94
Non-oil imports	338	299	323	314	323
Net Invisibles	107	115	116	108	111
Capital a/c balance	89	49	90	41	30
<i>% of GDP</i>	4.9	2.6	4.7	2.0	1.4
Net FDI	20	22	33	36	40
Portfolio investment	27	5	41	-4	-8
Loans	31	8	3	-5	-8
Banking capital	17	25	12	11	4
Overall BOP	3.8	17.6	61	18	0
<i>% of GDP</i>	0.2	0.9	3.2	0.9	0.0

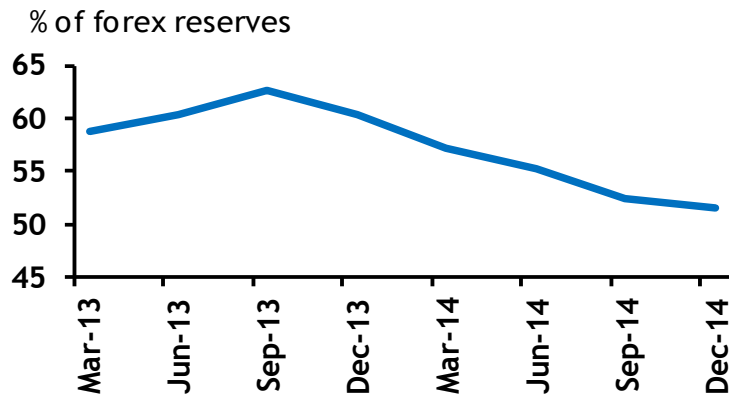
Source: RBI, JPM calculations

External balance sheet has become stronger

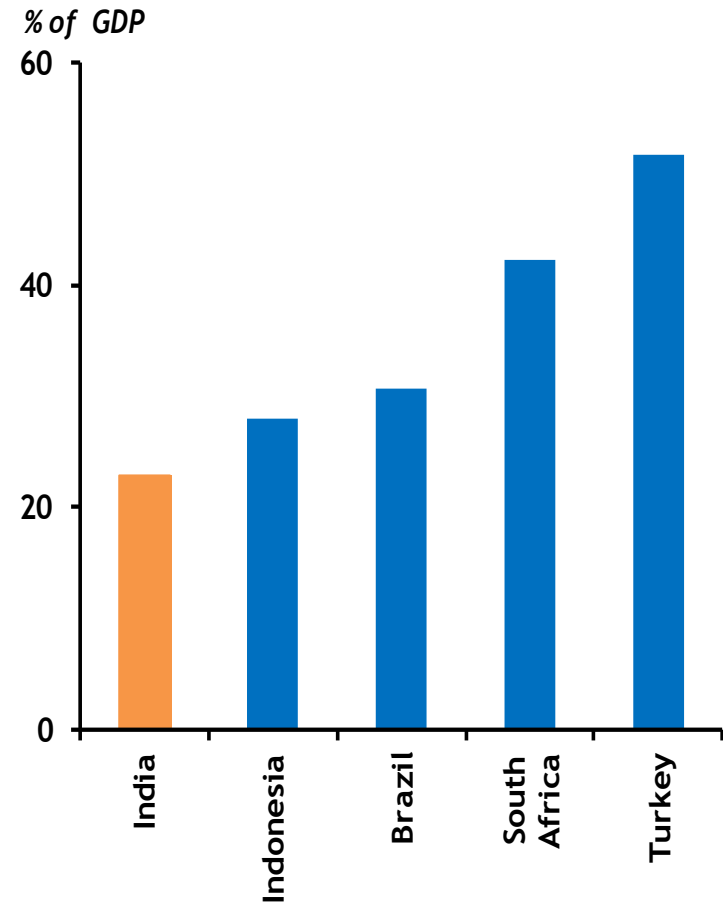
Foreign currency assets



Short term debt by reserves (residual maturity)



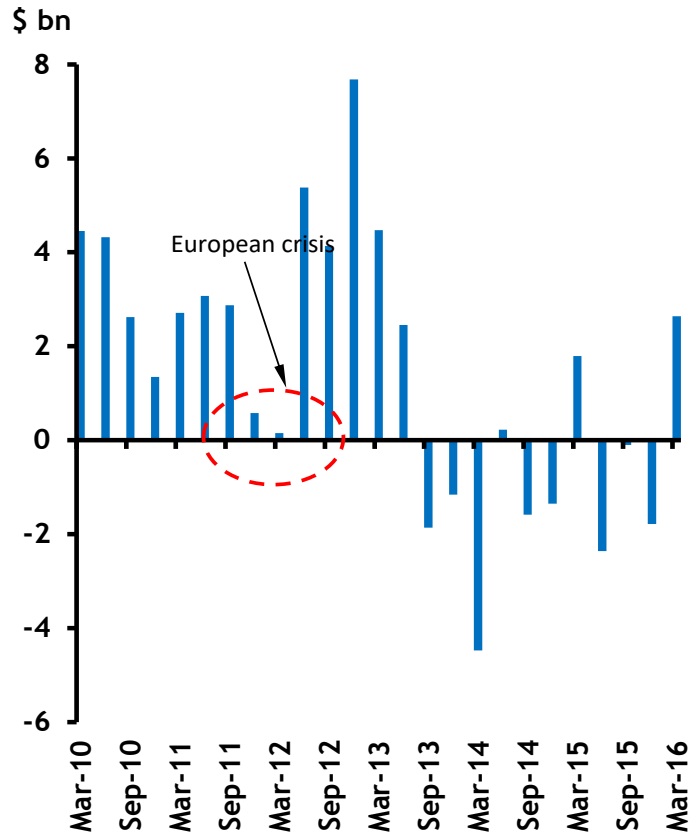
External debt (2015)



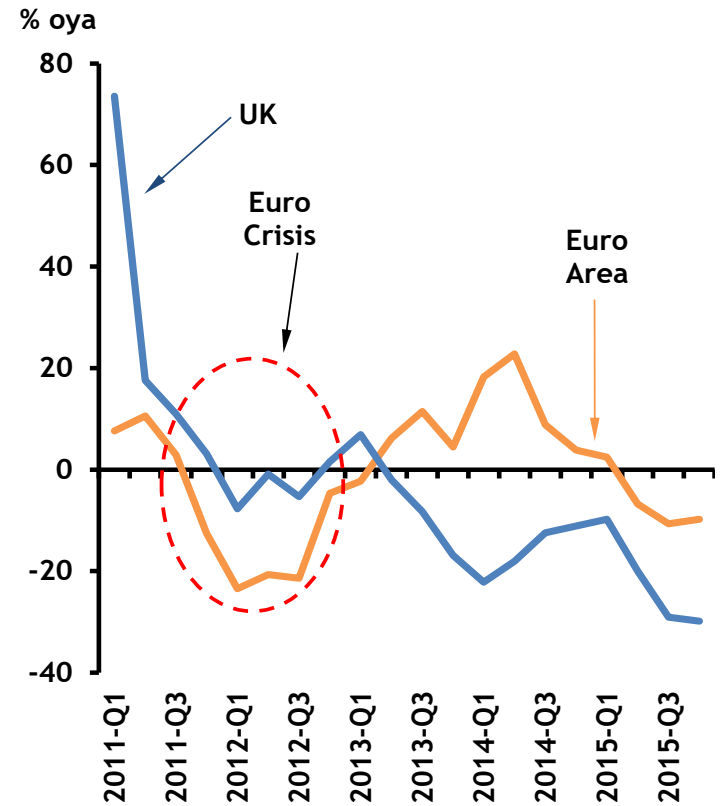
Source: Bloomberg, J.P. Morgan calculations

Trade credits at risk, but reduced risk over time

Trade credit



International claims on India

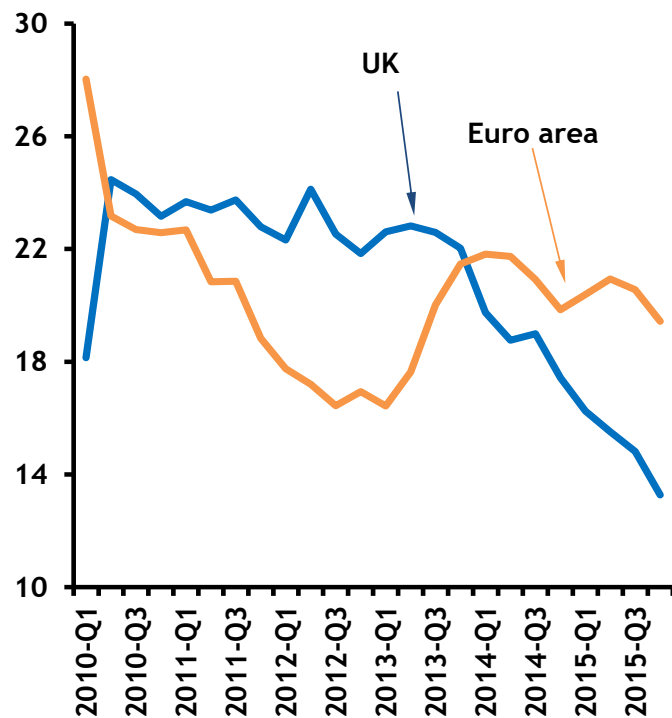


Source : Bloomberg, RBI, BIS

Exposure from Euro banks has been falling over time

International claims on India

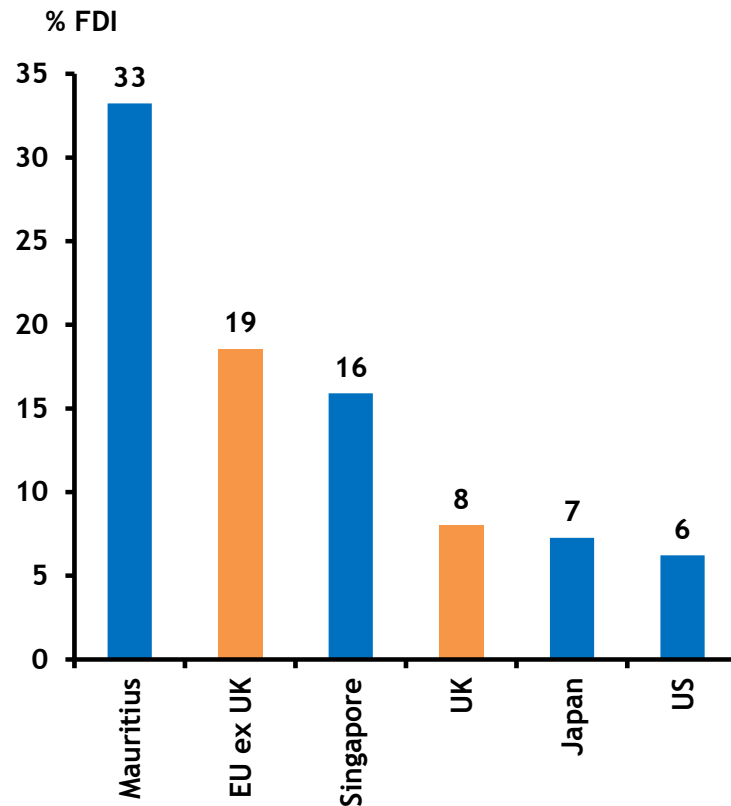
% of total claims



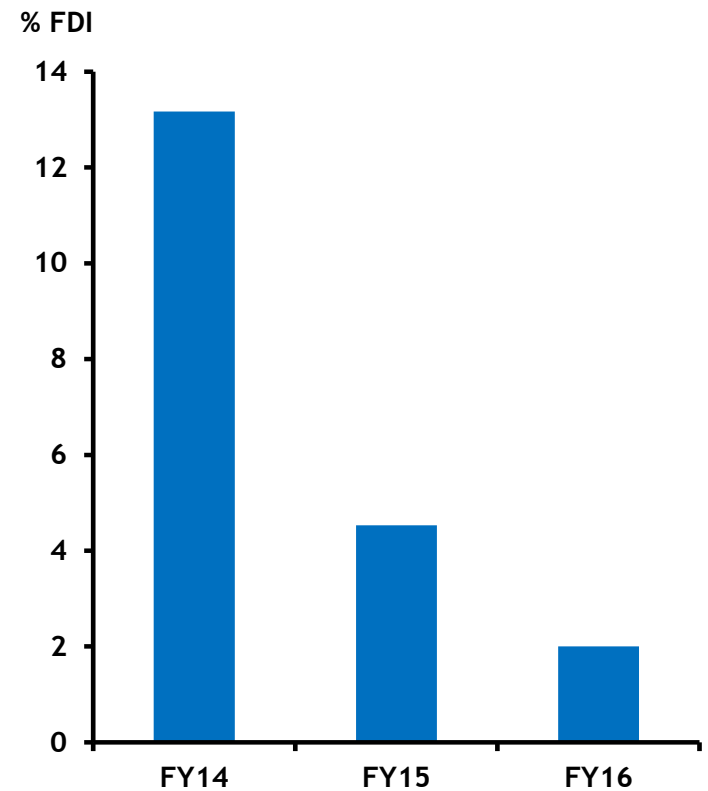
	EM: Foreign bank claims		
	% of GDP		
	EU	UK	Others
Brazil	3.5	0.8	4.6
China	0.7	0.7	2.4
Czech Republic	16.0	0.8	2.0
Hong Kong	15.5	20.4	70.4
Hungary	16.2	0.6	3.4
India	1.4	0.9	4.8
Indonesia	1.6	1.3	8.8
Poland	17.3	0.7	3.6
Russia	3.9	0.5	2.3
Singapore	16.5	14.4	51.6
South Africa	2.8	1.7	5.3
Thailand	0.8	0.6	8.3
Turkey	14.8	2.5	5.7

FDI from U.K. has also fallen over time

Inbound FDI to India (last 15 years)



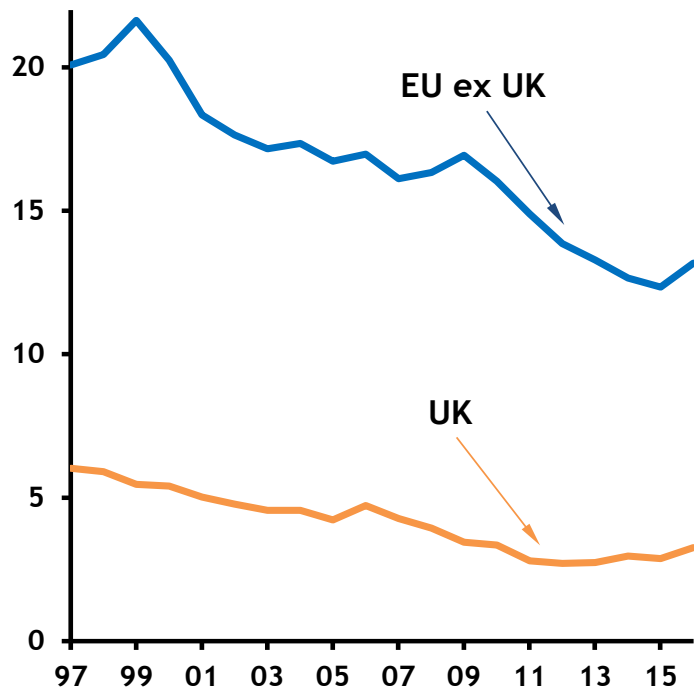
Inbound FDI to India from UK



As have trade shares

India: Export

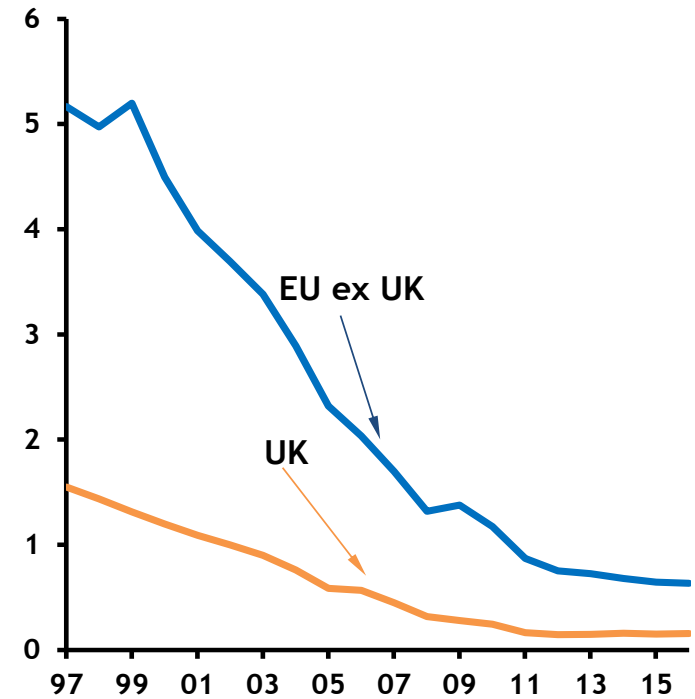
% share



Source: Ministry of commerce

India: Export

% of GDP

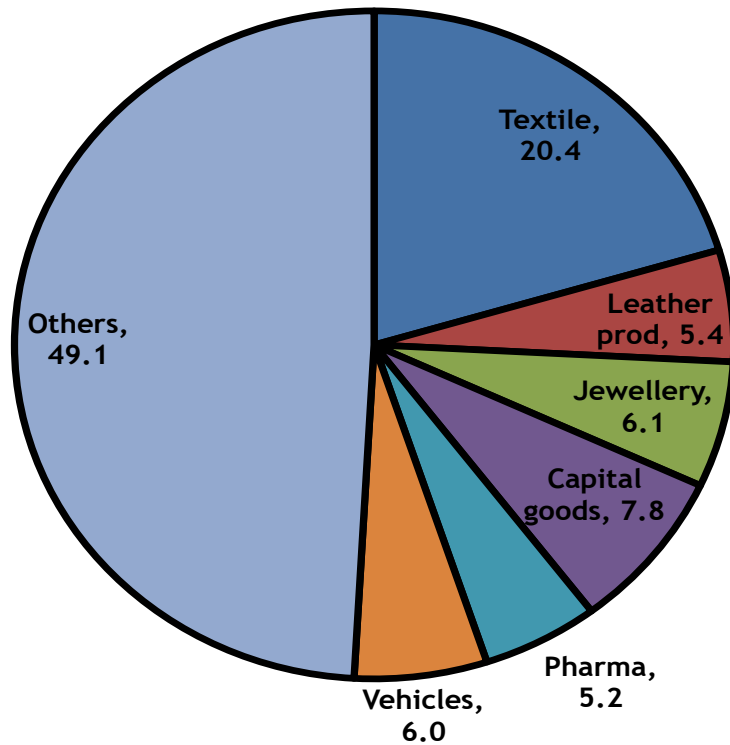


Source: Ministry of commerce

Though textile sector could be at risk

India exports to UK

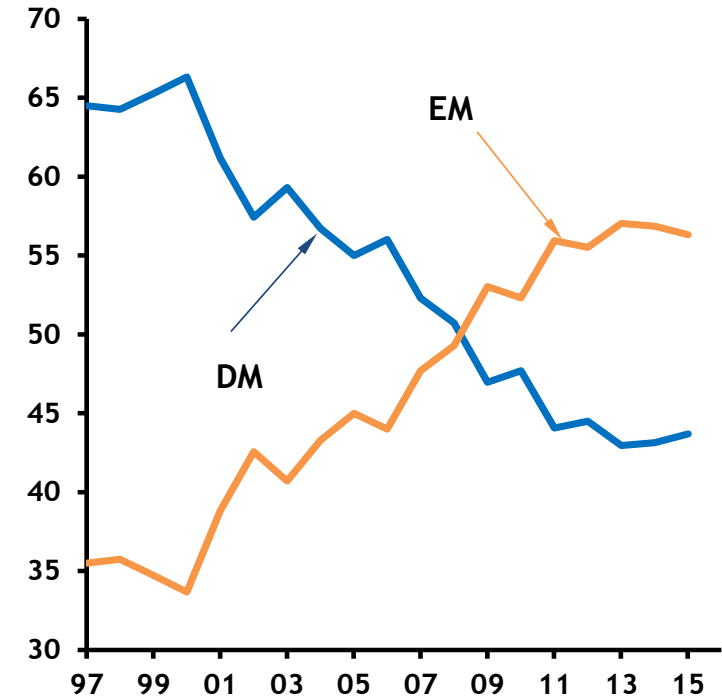
% share



Source : Ministry of commerce

India:Export

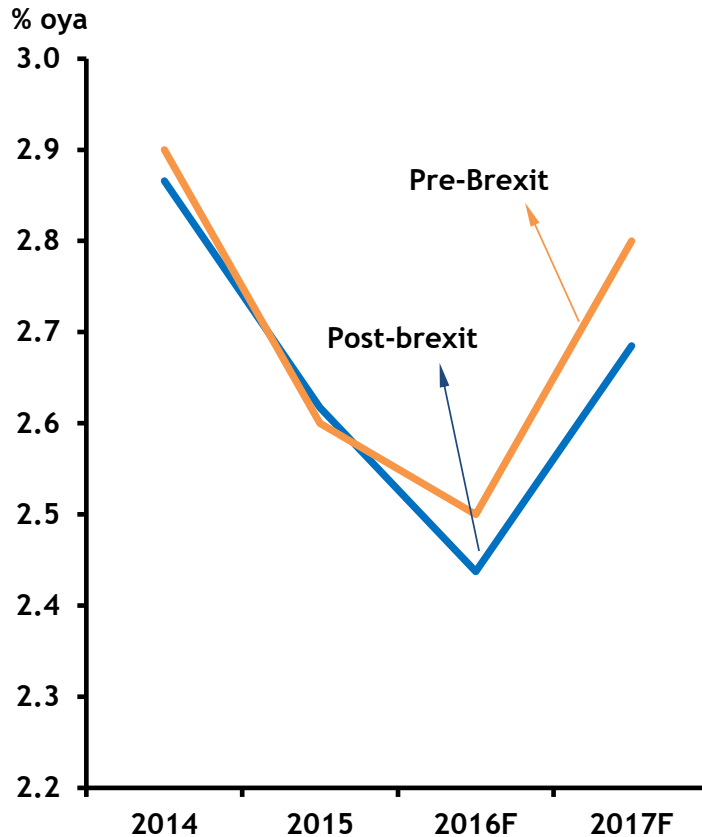
% share



Source: Ministry of commerce

Limited growth impact, for now

Global growth



Growth impact of Brexit on India:

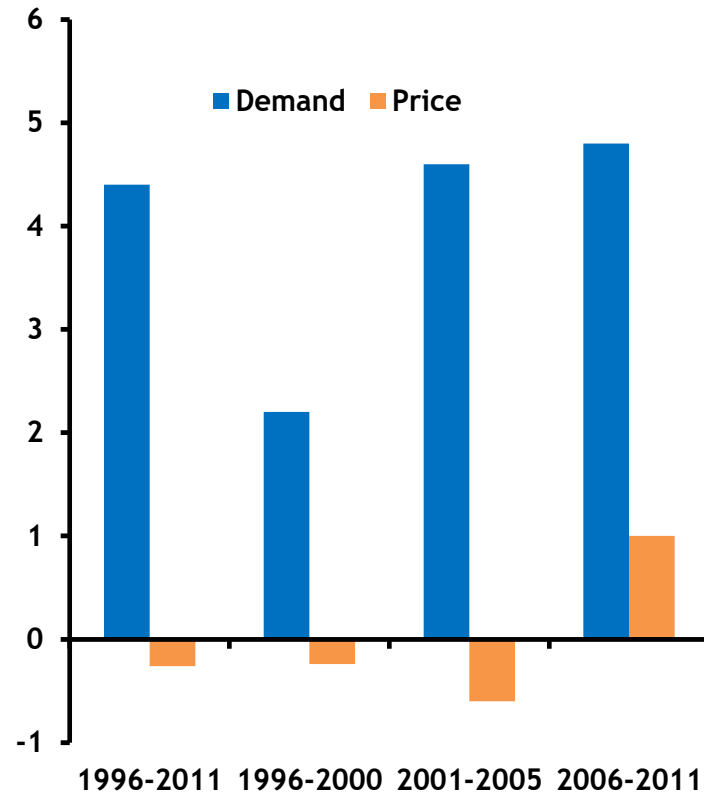
Reduction in Global growth forecast post Brexit	0.3
Elasticity to India exports to global growth	4.8
Direct Impact on Indian exports due to Brexit (ex re-exports)	1.2
% share of exports in GDP	20%
Impact on GDP (% oya)	0.2

Source : Bloomberg, J.P. Morgan research

Bigger concern is de-globalization in the medium term

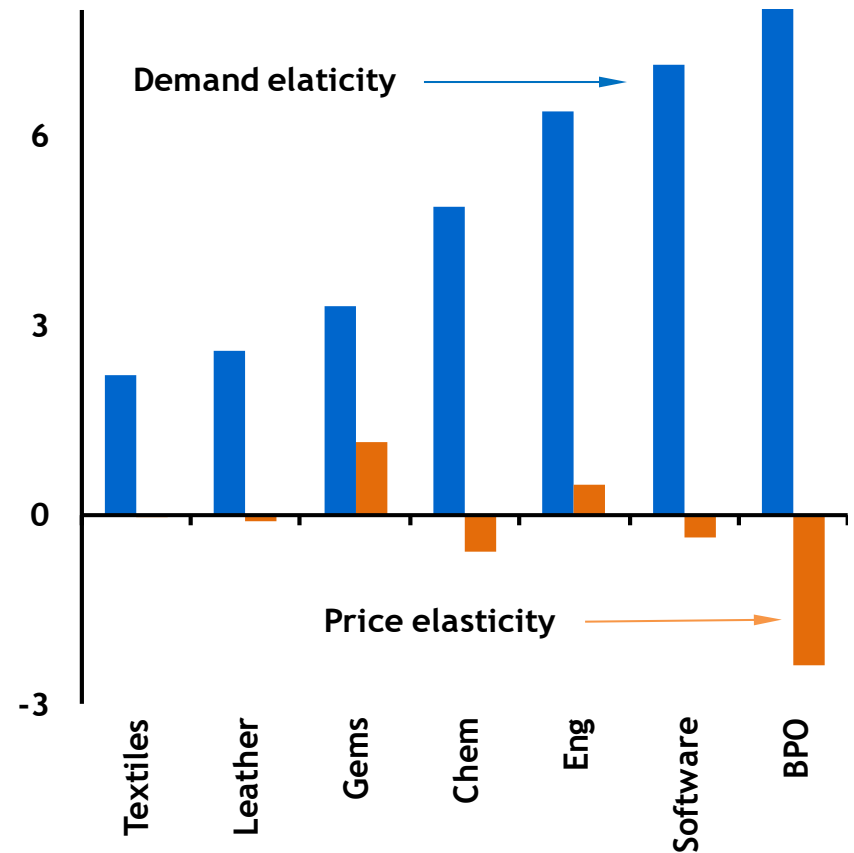
Global demand drives the exports

Elasticity



India: except for BPO price elasticity of other exports is insignificant

Elasticity

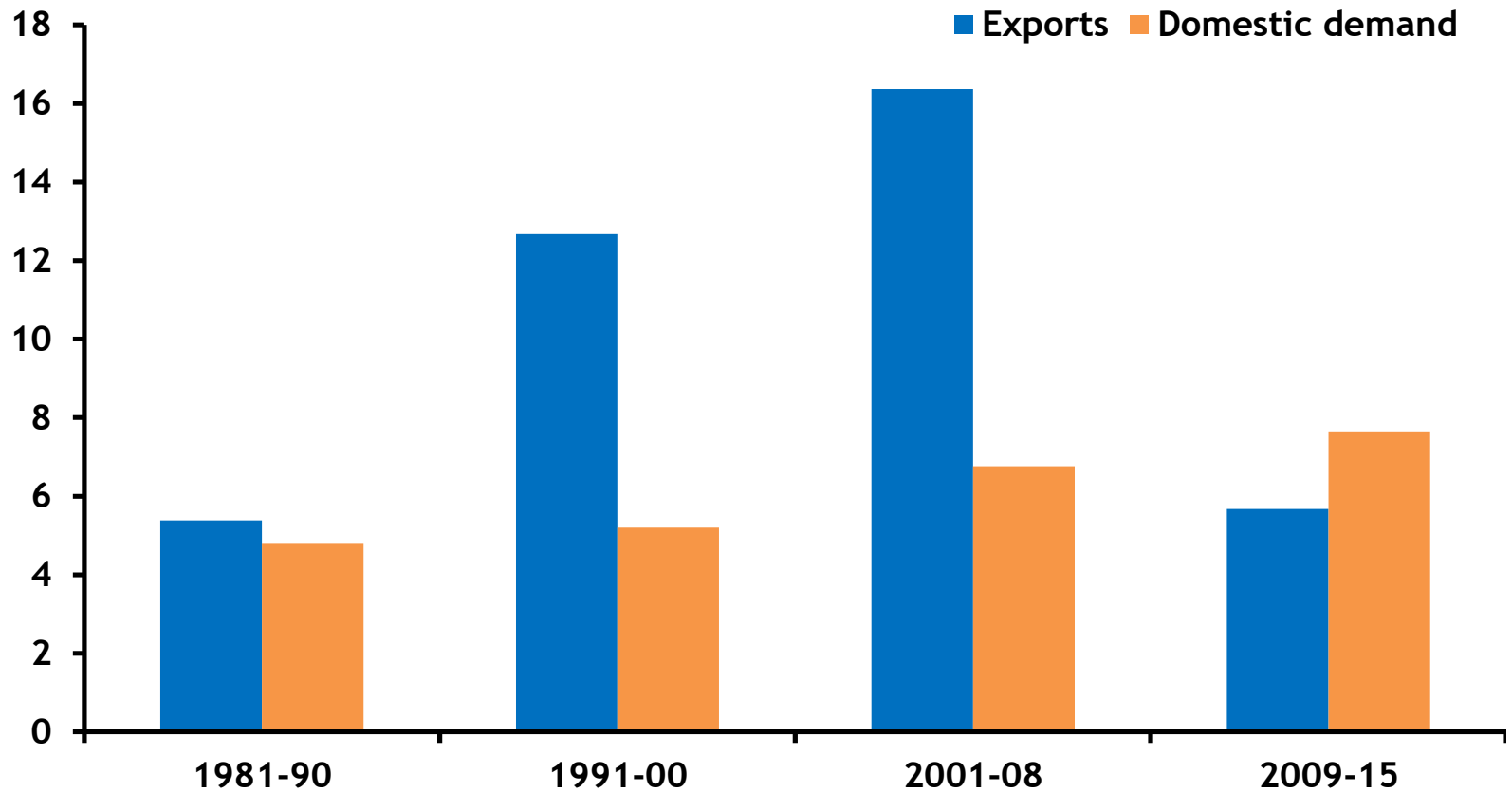


Source : Bloomberg, J.P. Morgan research

More open than you think

India: more open than you think

% oya



Source : CEIC, J.P. Morgan calculations

Disclosures

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