“Outlook 2015: Can the Recovery Continue?”

With Ethan Harris, Co-head of Global Economics Research
BofA Merrill Lynch Global Research

Please see important information at the end of this program

Recorded on December 3, 2014

I'm Ethan Harris, co-head of global economics research. The big story in 2015 is an improvement in global growth.

[GRAPHIC CARD]
Optimistic About the U.S.
- Balance sheet repair
- Less “shocks” from Washington
- Less partisanship

We're particularly optimistic about the U.S., where we've seen tremendous balance sheet repair and reduced shocks coming out of Washington, with less austerity and less brinksmanship.

[LOWER 3rd OVER B-ROLL]
Optimistic About the U.S.:
Improving real estate sector

The other good news is the real estate sector. For several years there, the real estate sector was not functioning normally. People didn't believe in housing, very high foreclosure rates. But now, housing has also returned to more normal behavior.

[LOWER 3rd]
Outlook 2015: U.S. growth continues
at around 3%, leading the global economy.
Source: BofA Merrill Lynch Global Research

So we think in the year ahead, we can see continued 3% growth in the United States, leading the global economy.

[CHAPTER BREAK]
A Mixed
Global Picture

Outside the U.S., things are a bit more mixed. Europe is muddling along. They still are in the middle of their crisis. The banks are still in tough shape. Credit is tight. Fiscal policy's tight.
Outlook 2015: Europe avoids recession, with prospects for growth of about 1%.

*Source: BofA Merrill Lynch Global Research*

But we do think Europe can enjoy about 1% growth going forward, and that will keep them away from recession.

In emerging markets, you again have a very mixed picture.

**[MAP GRAPHIC]**

**Outlook for Emerging Markets**

**Recessions likely in Russia, Argentina and Ukraine**

*Source: BofA Merrill Lynch Global Research*

At one extreme, you’ve got countries like Russia, Argentina and the Ukraine that are likely to be an outright recession.

**[MAP GRAPHIC]**

**Outlook for Emerging Markets**

**Stronger growth for China and India**

*Source: BofA Merrill Lynch Global Research*

On the other hand, the big juggernauts, India and China look like they will have a good outlook going forward. We think with low inflation there will be stimulative policies that restore strong growth in both of those economies.

**[CHAPTER BREAK]**

**Global Inflation**

**Remains Low**

Now, against that better growth backdrop, we still see very low inflation globally.

**[GRAPHIC CARD]**

**Why the Low Inflation?**

- “Spare capacity” in many economies
- High unemployment in Europe
- Above normal unemployment in U.S.
- Moderate growth in Emerging Markets

And the reason for that is that there’s a spare capacity in most economies in the world. In Europe in particular, you have an unemployment rate averaging 11.5%. That's above normal 9% unemployment rate, so there's a lot of spare capacity in Europe.

In the U.S., we've seen the unemployment rate come down but still is a little bit above normal. And across the emerging markets, growth has been moderate, and so there's spare capacity there as well.

So this means a continued environment of dis-inflation and low inflation in many economies.
Central Bank Support Continues

Now, that backdrop of better growth but continued low inflation means central banks will continue to provide support into the markets. Yes, the Fed has stopped its QE policy and its QE3 asset buying program.

Central Bank Support from:
- European Central Bank
- Bank of Japan

Global liquidity continues

But that’s being replaced by equally big balance sheet expansion by the European Central Bank and by the Bank of Japan. So we still have a very liquidity-driven global market and economy.

So the good news is that central banks will continue to provide support. We should be able to see better growth in the United States and moderate growth elsewhere.

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