



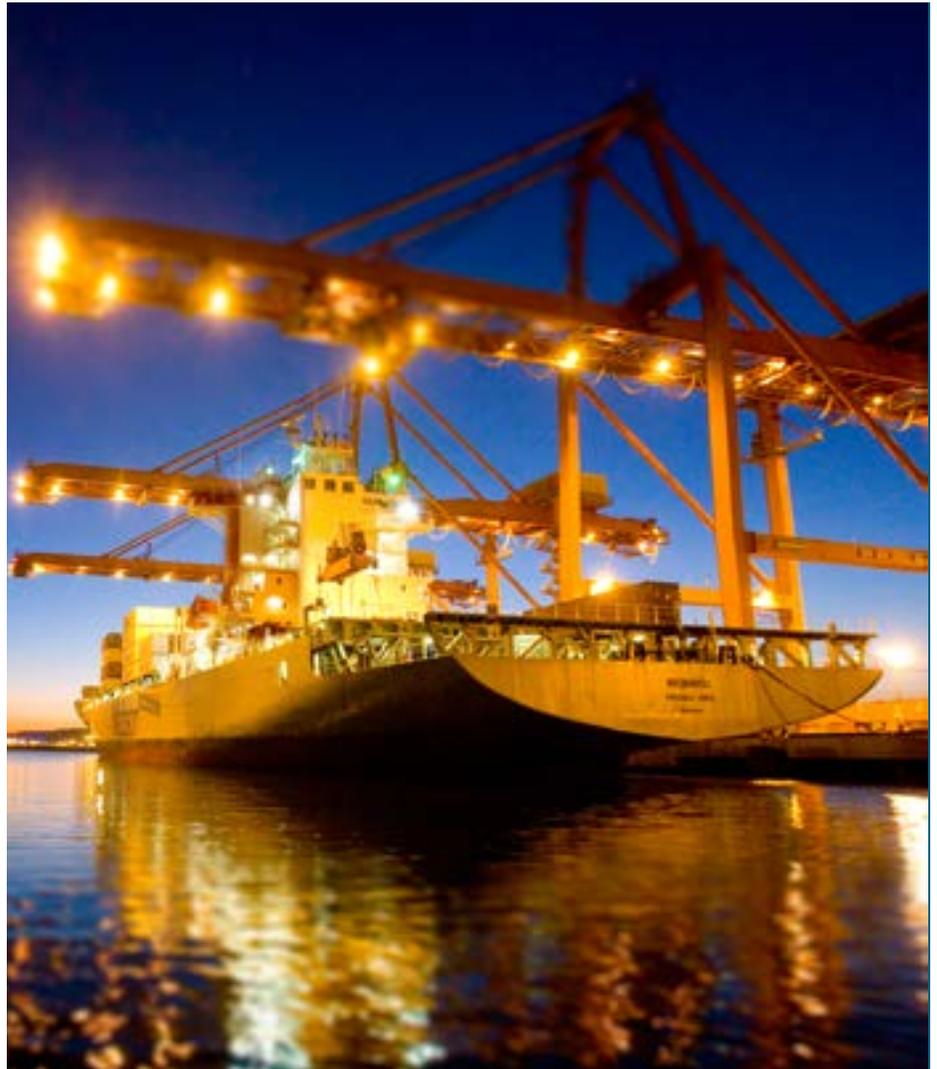
UHERO FORECAST PROJECT

ASIA-PACIFIC FORECAST:

PUBLIC SUMMARY

# MODERATE REGIONAL GROWTH FACES RISING RISKS

DECEMBER 5, 2014





# UHERO

THE ECONOMIC RESEARCH ORGANIZATION  
AT THE UNIVERSITY OF HAWAII

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## ASIA-PACIFIC FORECAST

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## EXECUTIVE SUMMARY

The Asia-Pacific economy slowed this year, and only slight acceleration is expected in 2015. While US economic conditions are steadily improving, Japan has had to delay for now additional tax hikes after the first one prompted contraction. Lower oil prices will be an overall plus for the global economy, even if they pose challenges for commodity exporters. China's structural transformation and the eurozone's struggle to move onto a satisfactory growth path continue to hold back global trade. This limits prospects for export-dependent East and Southeast Asia.

- The US is the bright spot among developed economies. Recent months have seen a rebound in production and steady improvement in the labor market. Forward-looking indicators, such as consumer sentiment, are strong, and the policy environment will remain supportive. Next year will see the best overall US economic growth since 2005. Canada will benefit from strength in its primary export market, which will more than offset the negative effect of lower oil prices.
- Outside North America, prospects for much of the developed world look poor. With the exception of the United Kingdom, hoped-for improvement in Europe has failed to materialize. The EU is likely to avoid its third recession in six years and to see somewhat stronger growth in 2015, but the risk of a much worse outcome has risen.
- As expected, the April consumption tax increase in Japan caused a pre-hike surge in spending, but an even larger drop thereafter. Contraction continued in the third quarter. The government has delayed the second planned tax hike and called snap elections. Meanwhile, the Bank of Japan has renewed its expansionary efforts. Annual real gross domestic product growth for 2014 will be negligible, and conditions will not be much better in 2015.
- In Australia, softer business confidence is limiting investment. While private consumption is expected to accelerate, government consumption will be modest given concerns about budget deficits. After solid 3% growth this year, real GDP growth will recede a bit for the next two years. New Zealand is in a somewhat stronger position. Net migration and rising labor income are supporting stronger household spending. Real GDP will firm above 3% in 2015.
- The pace of growth in China has continued to decelerate. In part, this reflects deliberate policies to restructure the economy away from a reliance on investment and exports, and to address bubbly real estate markets. But consumer spending and manufacturing are also dragging, and the central bank recently cut interest rates in response. Prospects are for continuing moderation of growth, settling at or just below the 7% annual level.

- Excluding China, growth in the rest of developing East and Southeast Asia will average 4-4.5% over the next two years. Despite tightening US monetary policy and weakness in some major developed country markets, exports and investment in the region are likely to gain some strength, leading to limited improvement in growth. Consumer spending is a more potent driver than in the past, although household debt burdens are a challenge in some countries. Political instability is an issue in Thailand and Hong Kong. Exporters of manufactured goods will do better than commodity exporters, like Indonesia.
- Very real risks cloud what is otherwise a moderately positive regional forecast. The legacy of fiscal austerity in Europe and a new turn in that direction by Japan are reinforcing deflation concerns, just as the Fed is winding down its long period of exceptional monetary ease. China is slowing faster than anticipated. The question will be whether the support from the newly-strong US is sufficient to propel global expansion against these headwinds.

#### Growth Rates of Real Gross Domestic Product

	2011	2012	2013	2014	2015	2016
North America						
United States	1.6	2.3	2.2	2.3	3.2	2.7
Canada	2.5	1.7	2.0	2.2	2.4	2.6
Asia and Oceania Developed						
Japan	-0.4	1.5	1.5	0.4	0.9	1.5
Australia	2.6	3.6	2.4	3.0	2.4	2.4
East and Southeast Asia						
China	7.5	6.3	6.4	6.2	6.1	6.1
Republic of Korea	9.3	7.7	7.7	7.3	7.0	6.8
	3.7	2.3	3.0	3.5	3.6	3.8
Gross World Product	3.0	2.4	2.4	2.6	3.2	3.3

Source: UHERO. Based in part on United Nations Project LINK Global Economic Outlook, October 2014. Figures for 2014 - 2016 are forecasts. Gross World Product is calculated at 2010 prices and exchange rates.

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