



Los Angeles Area
Chamber of Commerce

A better L.A. is our business



Global Initiatives Council

**CHAIR: Elizabeth Glynn,
UCLA Extension**

Wednesday, November 17
9 a.m. Registration & Networking
9:30 – 10:30 a.m. Program

MEETING AGENDA

I. Welcome Remarks

Carlos Valderrama
Senior VP, Global Initiatives
L.A. Area Chamber

Elizabeth Glynn
Chair, Global Initiatives Council
UCLA Extension

II. Presentation

Dr. Ira Kalish
Director of Global Economics
Deloitte Research

III. Questions & Answers

Elizabeth Glynn

Adjourn.

CO-CHAIR – Los Angeles World Trade Fair:
Norman Arikawa, International Trade Development Manager,
Port of Los Angeles

CO-CHAIR – International Trade Policy:
Brian Peck, Adjunct Professor, University of Southern California

CO-CHAIR – Trade Commissioners Networking Group:
Monica Banken, Outreach Programs Coordinator, RAND Corporation

Dr. Ira Kalish
Director of Global Economics
Deloitte Research

Dr. Ira Kalish is Director of Global Economics at Deloitte Research. He is an expert on global economic issues as well as the effects of economic, demographic, and social trends on the global business environment. He has written reports on the economies of Western Europe, Eastern Europe, Southeast Asia, China, Japan, Mexico, and South America. He has also written extensively on global consumer markets. In addition, he has authored over 150 articles and reports on economic and consumer trends around the world.

Among Dr. Kalish's recent publications were *Global Economic Outlook 2010*; *Global Powers of Retailing 2009*; *China and India: Comparing the World's Hottest Consumer Markets*; *China and India: The Reality Beyond the Hype*, and *China's Consumer Market: Opportunities and Risks*.

Dr. Kalish has given numerous presentations on topics related to the global economy. Among his audiences have been AIG, Auchan, Avon, Best Buy, Boots, Gap, GE Capital, ICSC, Kraft, Levi Strauss, Mattel, NCR, Nike, the National Retail Federation, Oracle, Petsmart, the Retail Week Conference, SAP, Sears, Unilever, Westfield, and the World Retail Congress to name a few. He has given presentations to business leaders on six continents. In addition, he has been widely quoted in the news media. His remarks have been published by *The Wall Street Journal*, *Business Week*, *The Economist*, *The Financial Times*, *USA Today*, *The Washington Post*, *US News and World Report*, *The Far Eastern Economic Review*, *Women's Wear Daily*, and *Advertising Age*. He has appeared on CNN, CBS News, CNBC, PBS, and BBC World Service.

Prior to his work at Deloitte, Dr. Kalish was Chief Economist at Retail Forward, a Director at PricewaterhouseCoopers, Vice President at Bankers Trust Corporation, Corporate Economist at the Eastman Kodak Company, and Researcher at the Institute for International Economics. Dr. Kalish holds a bachelor's degree in economics from Vassar College and a PhD in international economics from Johns Hopkins University.



Economic Outlook

What to expect in 2011 and beyond

Dr. Ira Kalish
November 2010



US economy

- What went wrong?

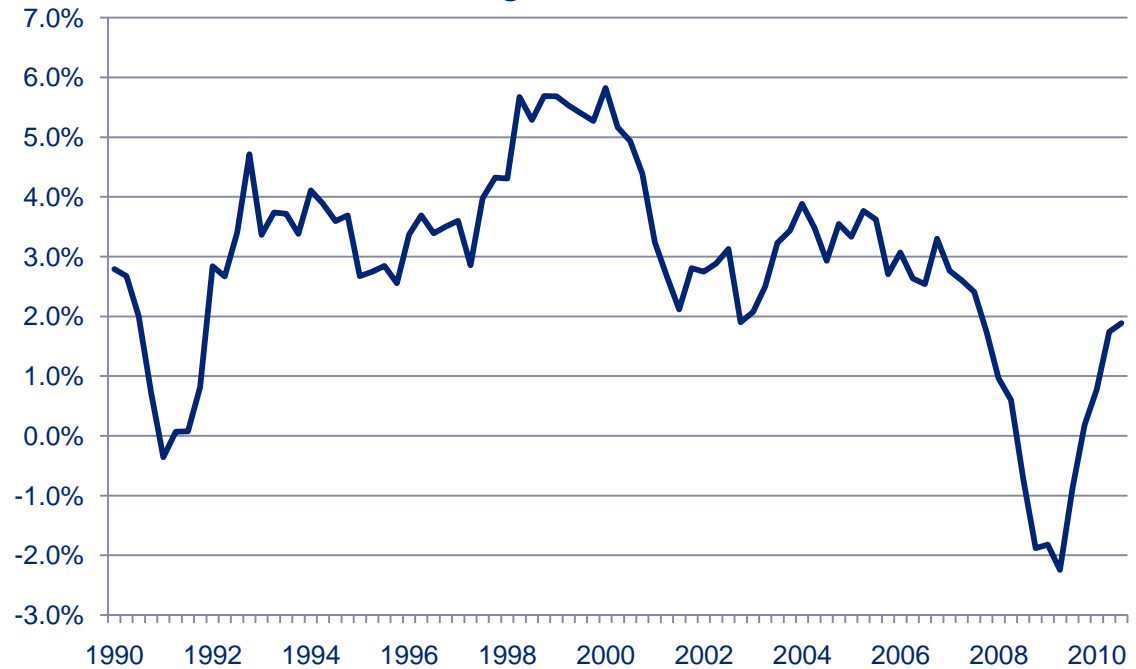


US economy

- What went wrong?
 - Consumer spending is weak

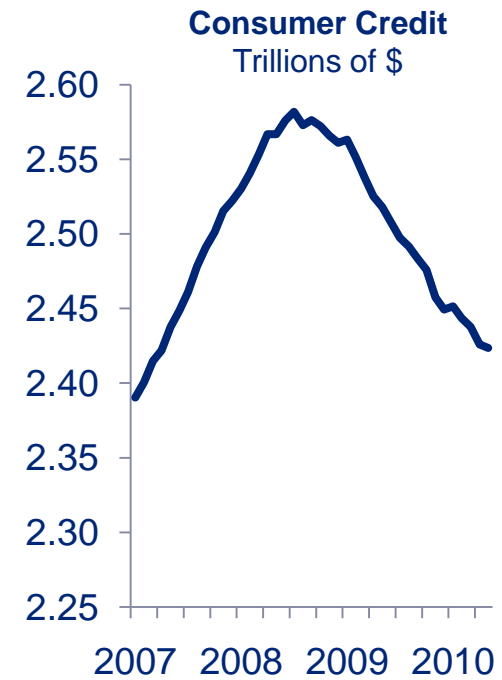
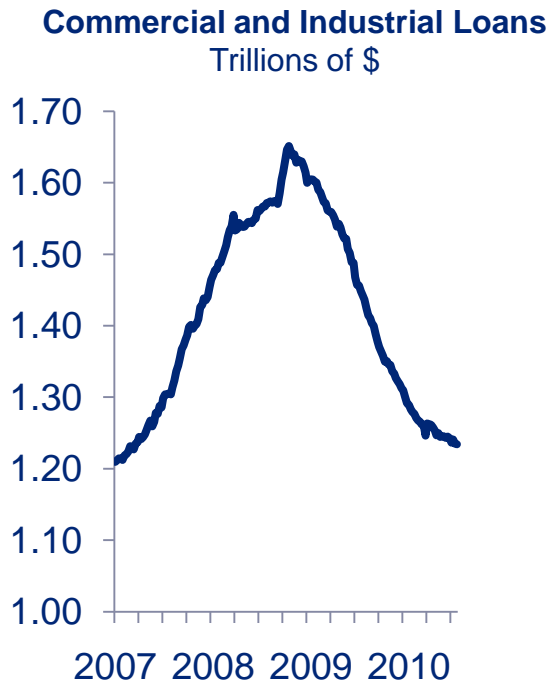
Real consumer spending

% Chg Year to Year



US economy

- What went wrong?
 - Continued de-leveraging



US economy

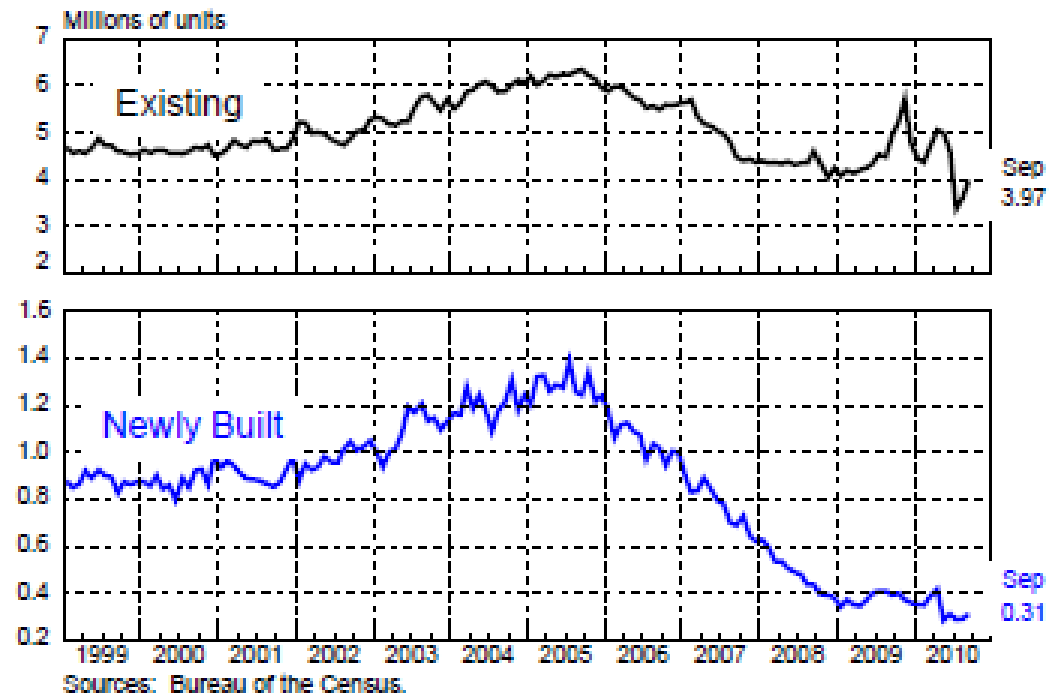
- What went wrong?
 - Slow job market recovery



US economy

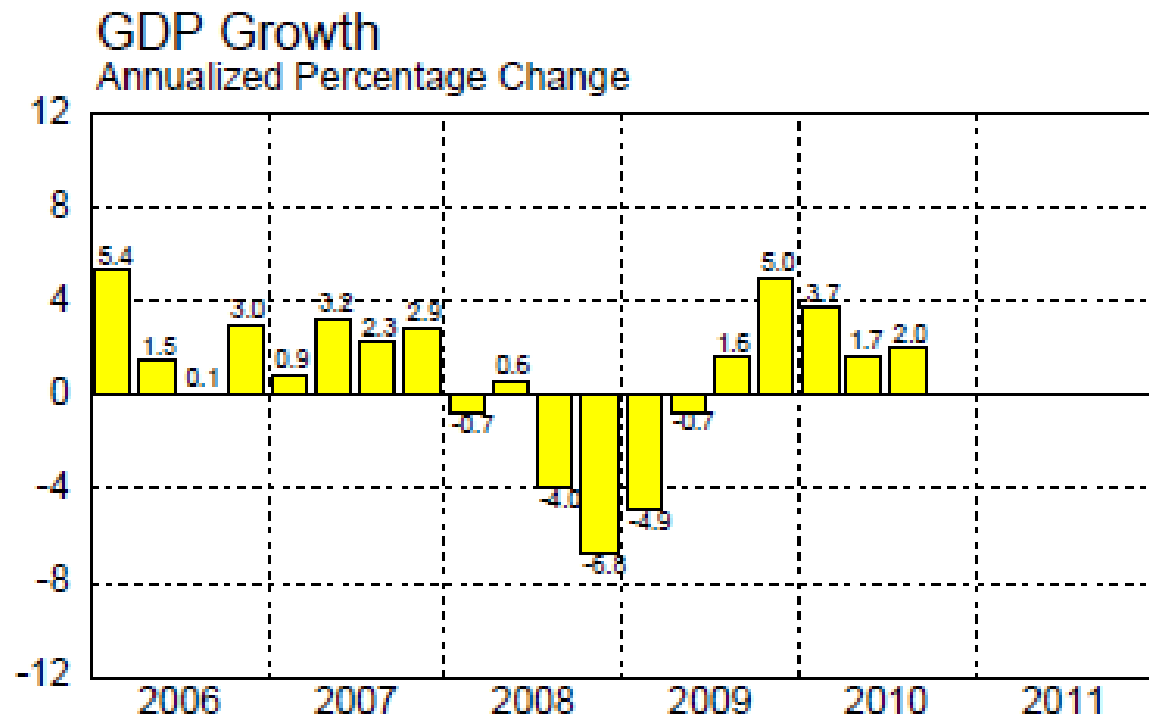
- What went wrong?
 - Housing market dead

SINGLE FAMILY HOME SALES Seasonally Adjusted Annual Rate



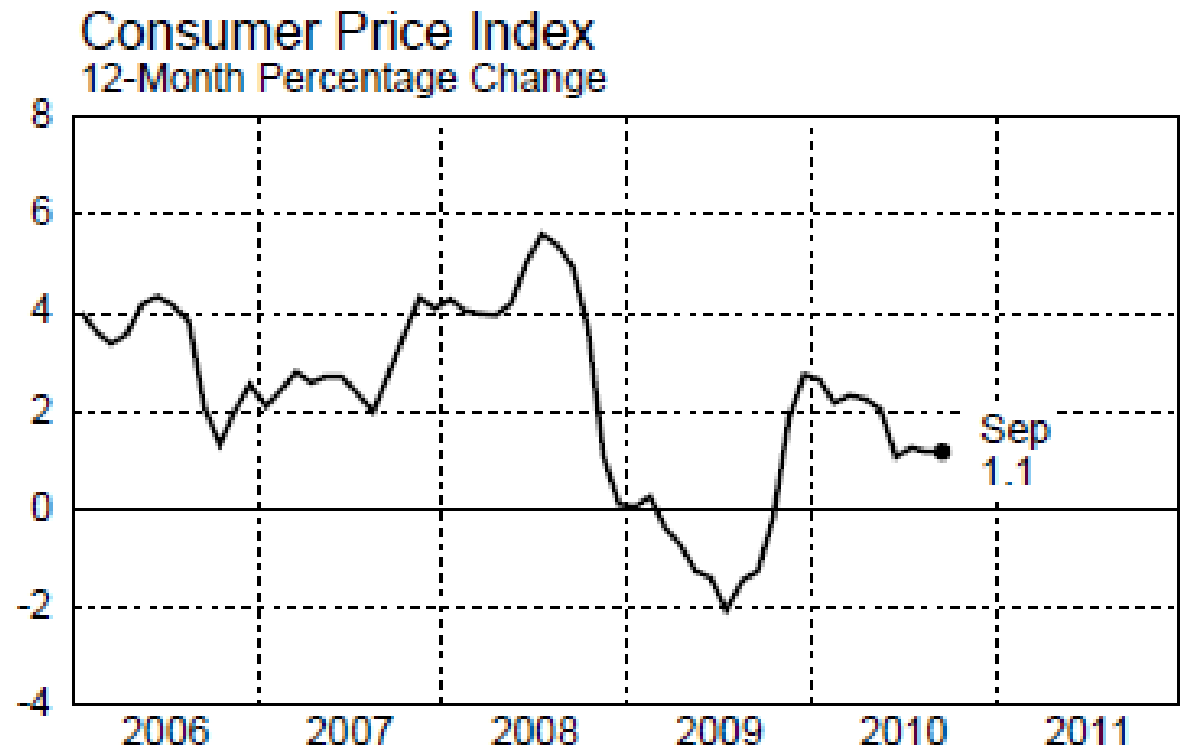
US economy

- On the other hand ...
 - The economy continues to grow



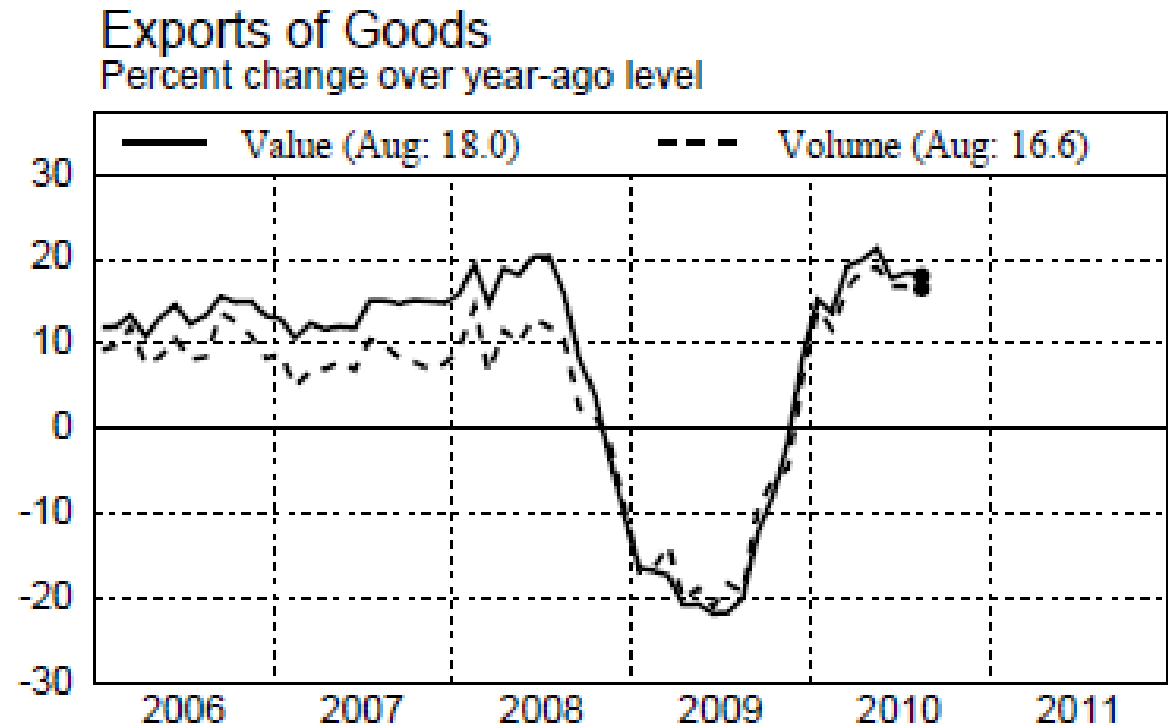
US economy

- On the other hand ...
 - There is no inflation
 - Gives Fed wiggle room



US economy

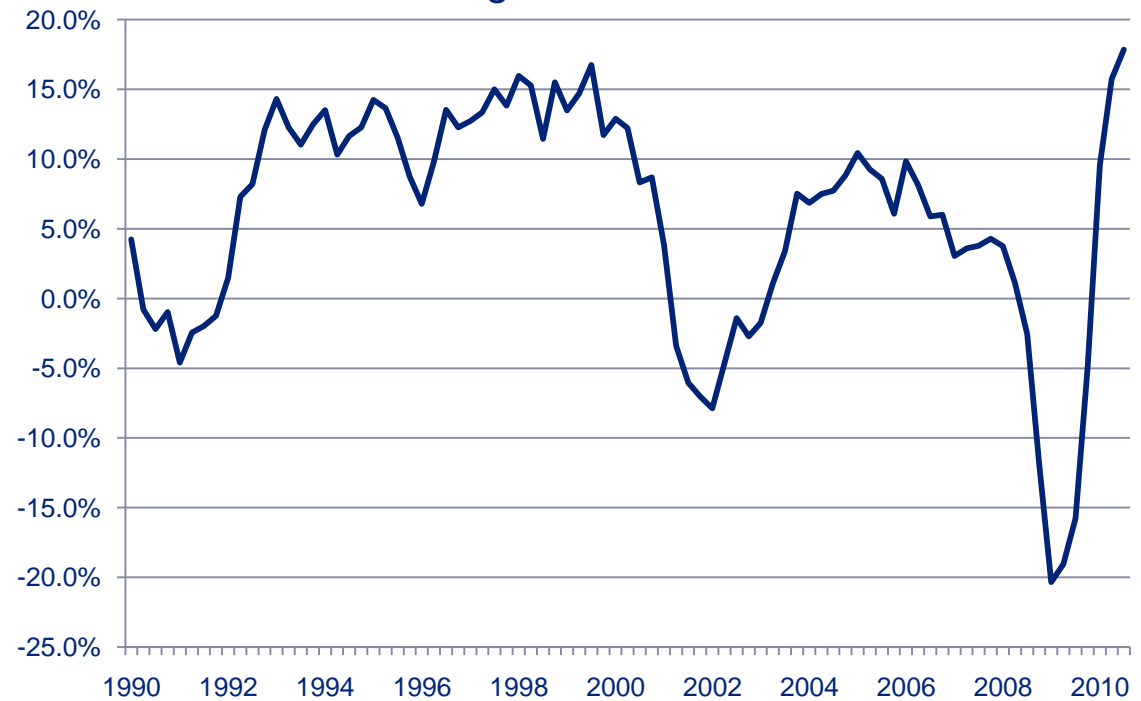
- On the other hand ...
 - Exports are strong



US economy

- On the other hand ...
 - Business investment is growing

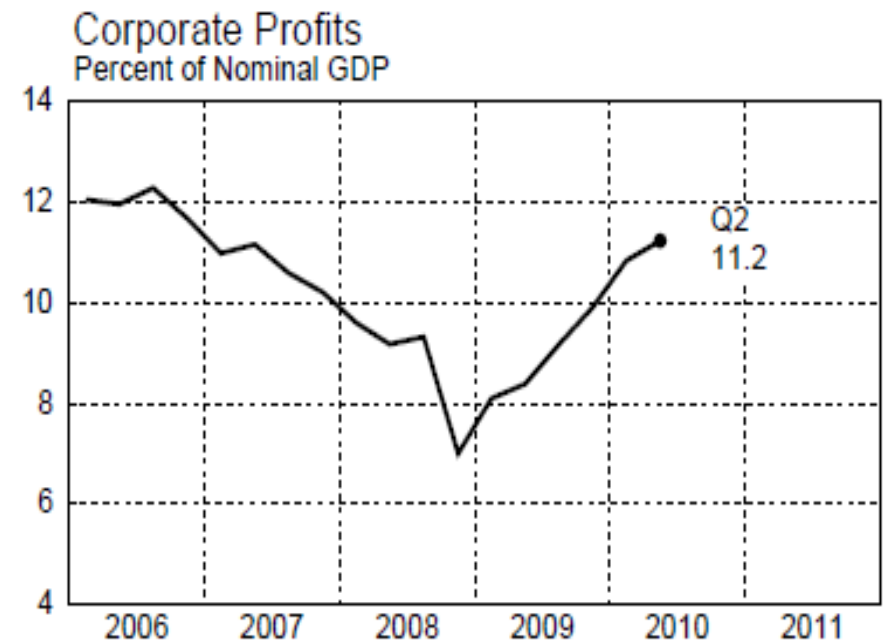
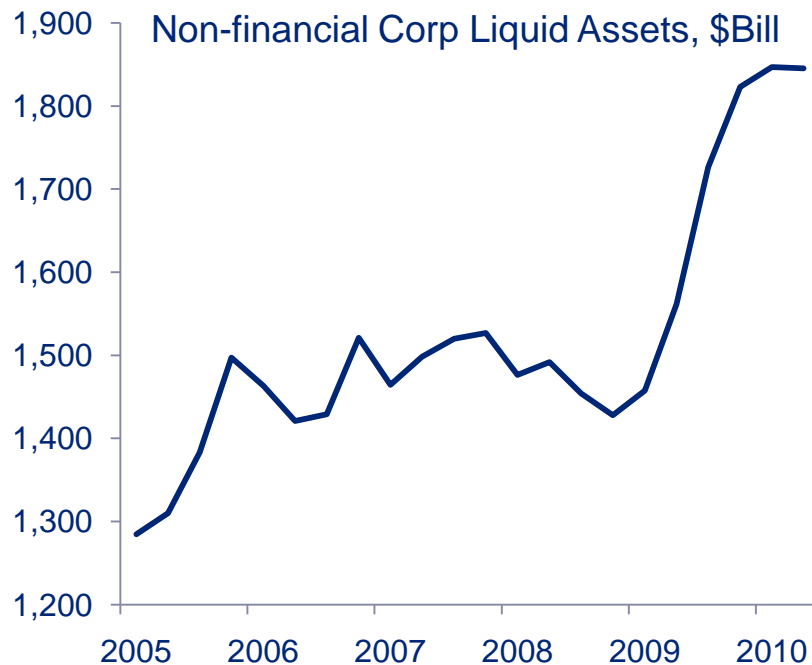
Real Investment Equipment and Software
% Change from Previous Year



US economy

- On the other hand ...
 - Corporate profits are way up and companies have loads of cash

Company Cash



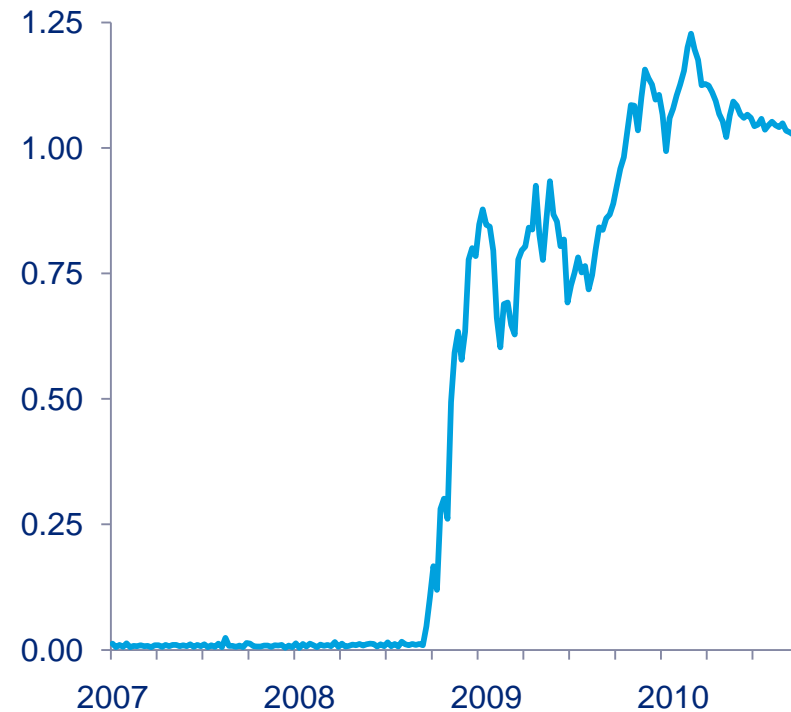
U.S. economy

- The impact of policy
 - Big deficits remain
 - But no new stimulus
 - All power left to the Fed



Bank Reserves on Deposit
at Fed

Trillions Dollars



U.S. economy

- What does QE2 do?
 - Increases inflation expectations
 - Creates negative real interest rate
 - Encourages borrowing

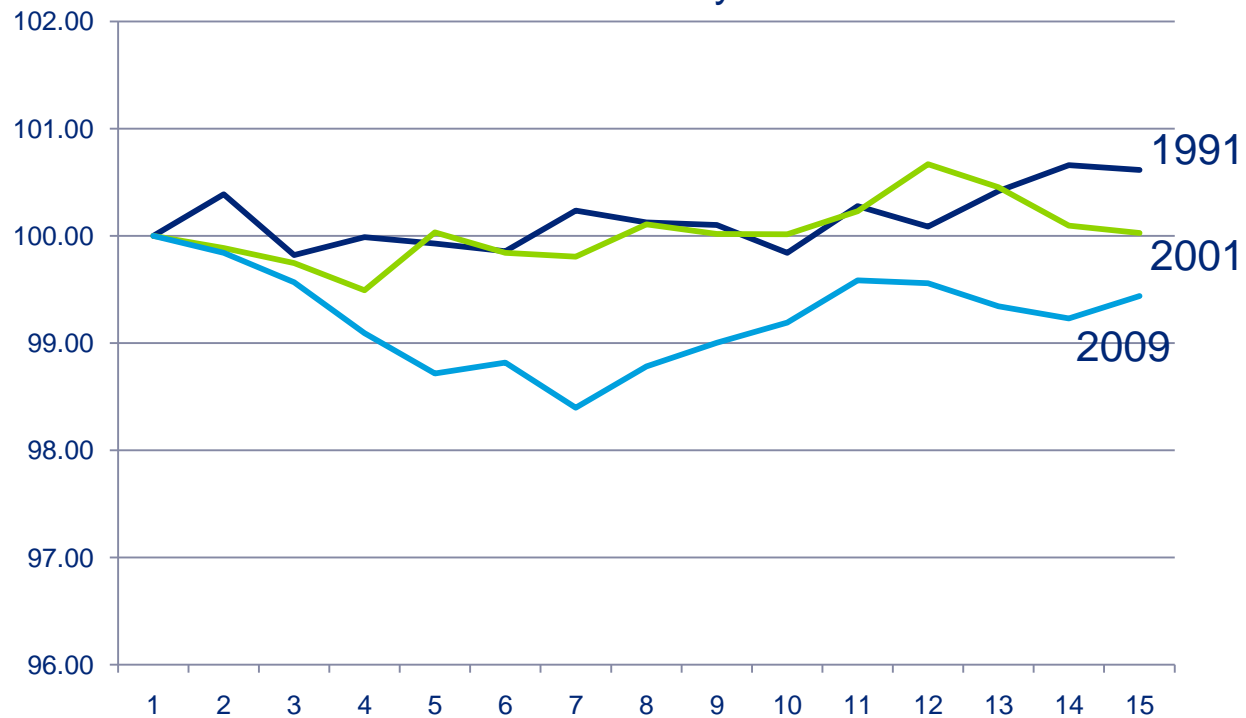


US economy

- What about the poor job market?
 - Not bad compared to 1991 and 2001

Employment following start of recovery

Index where recovery date = 100



US economy

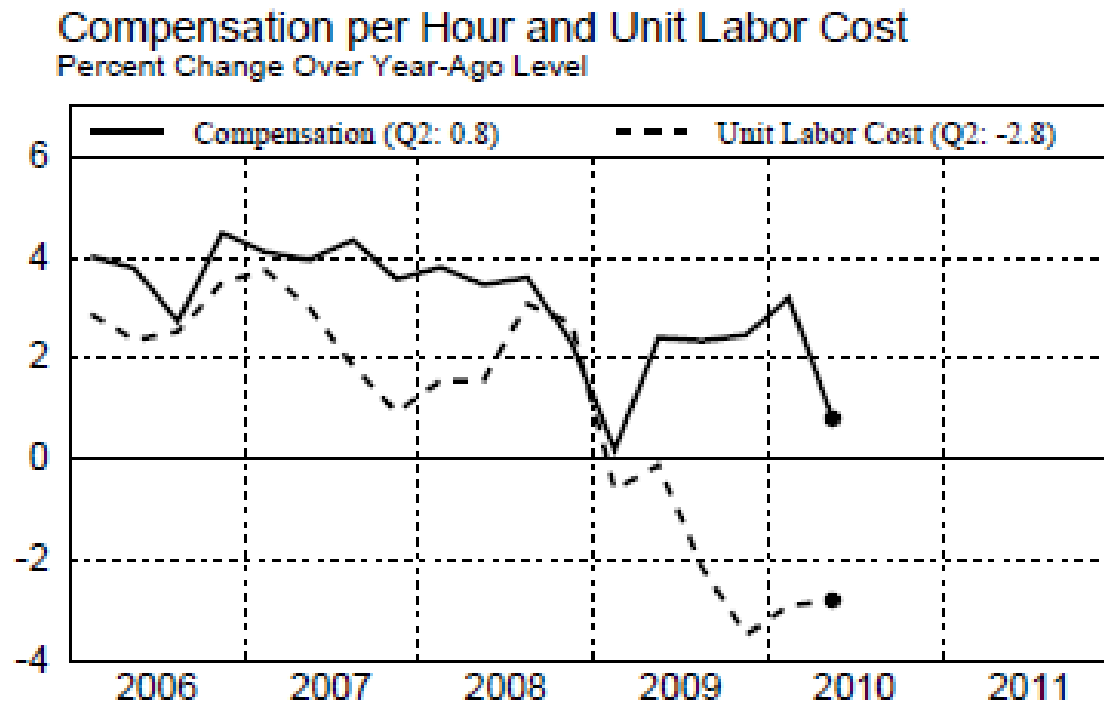
- What about the poor job market?
 - Unusually high number of permanent losses

Long Term Unemployment



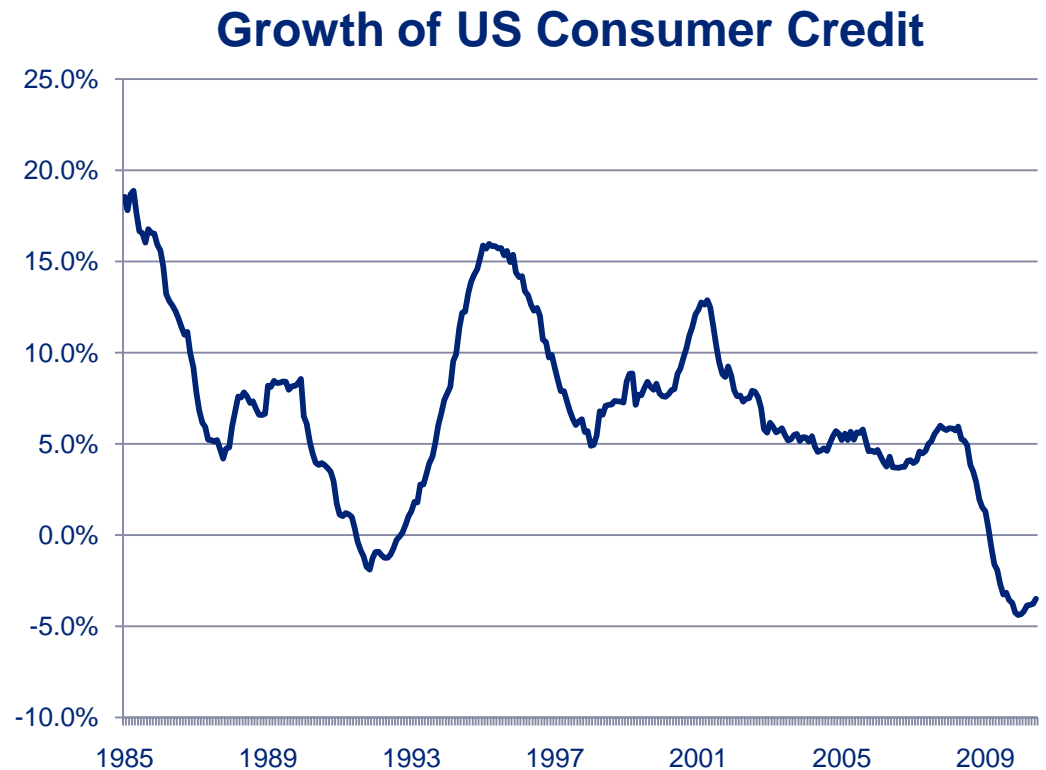
US economy

- What about the poor job market?
 - Productivity improvements bode well for job growth



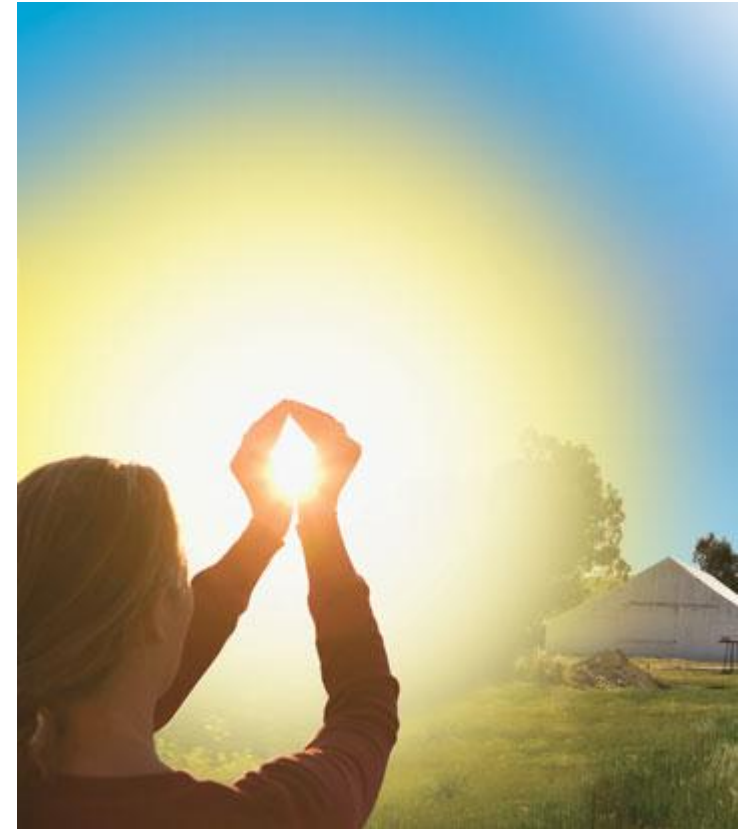
US economy

- What about the consumer?
 - Used to be the engine of growth
 - Continued de-leveraging creates a new normal
 - Growth currently moderate
 - Will shrink as share of GDP



US economy

- Outlook: modest growth with no inflation
 - Weak consumer as de-leveraging continues
 - Strength from exports, investment
 - Job growth comes much later
 - Plenty of excess capacity keeps inflation low



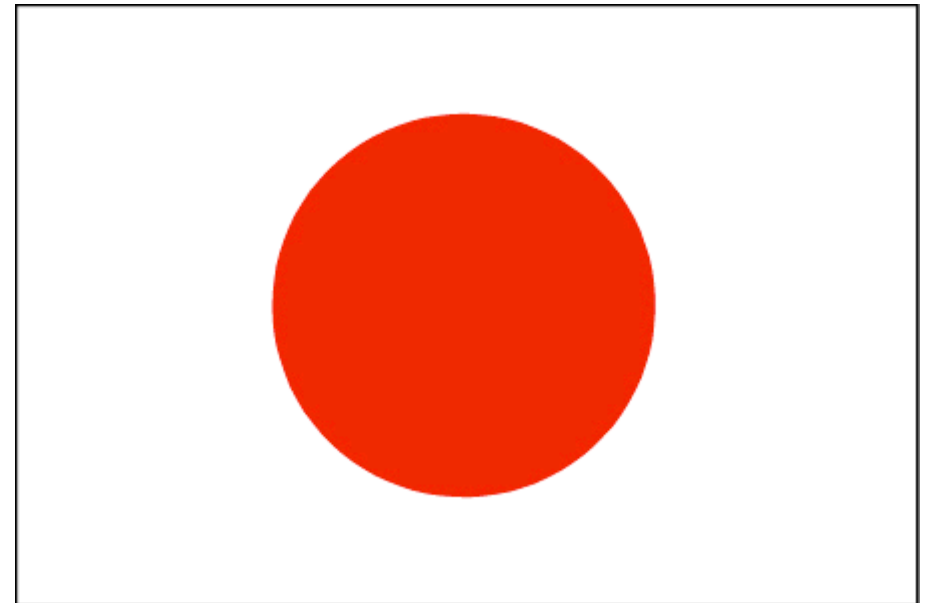
US economy

- What about a double dip?
 - Last happened in 1981
 - Conditions for another recession:
 - Inventory build up
 - Monetary tightening
 - Cutback in business investment



US economy

- What about a Japan-style stagnation?
 - What is different from Japanese situation
 - Bad assets have been purged from big banks
 - Monetary policy aggressive
 - Loss of wealth not as great
 - Business investment recovering



China

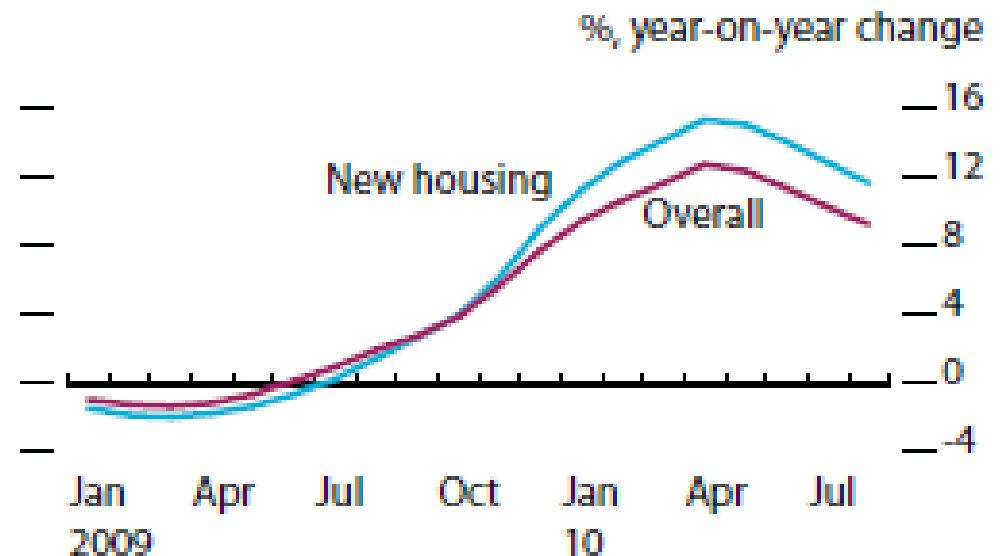
- What happened recently?
 - Global recession caused exports to collapse
 - 20 million out of work, went home
 - Massive stimulus led to recovery
 - Consumer demand kept growing



China

- Inflation and bubbles
 - Money supply expanded
 - Property price bubble
 - Inflation too high
 - Government engineers slowdown
 - Slower growth in 2011

Property Prices in China



China

- Shortage of workers
 - Demographic shift
 - Labor unrest accelerates
 - Much higher wages in coastal cities
 - Production shifts to interior
 - Economy restructures



“The misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all.”

- Joan Robinson

China

- What next for Chinese labor?
 - Rising wages will damage margins
 - Low wage processes shift to interior or beyond
 - Higher value-added processes emerge
 - Factory workers seek to join middle class
 - Internal passport system under stress
 - Rise of service economy



China

- What next for China's economic structure?
 - Exports shift from US/Europe to emerging countries
 - Exports move up value chain
 - Export growth slows, faster domestic growth
 - Investment remains too high, inefficient
 - Challenge: boost consumer demand



China

- Currency concerns
 - Euro decline stalled Chinese revaluation
 - Pressure from the US for revaluation
 - Revaluation will:
 - Reduce inflation
 - Boost imports
 - Boost consumer spending power
 - Shift China toward domestic growth
 - Revaluation taking place



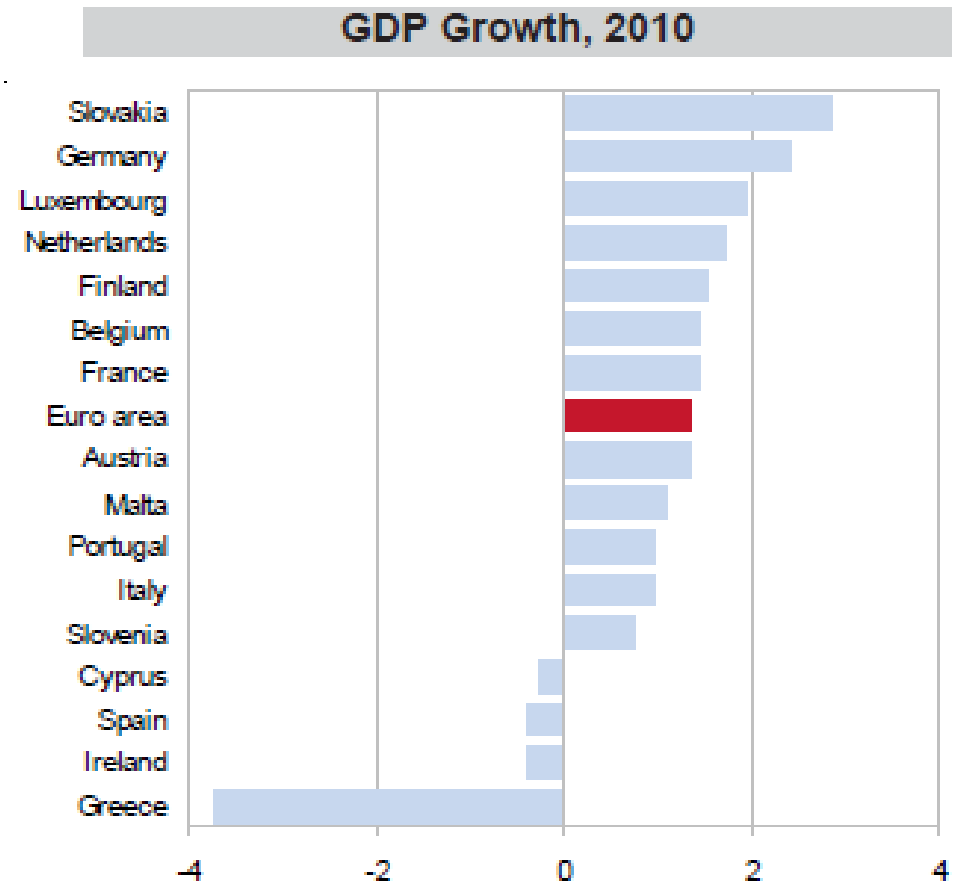
China

- Outlook
 - Slower growth in 2011
 - Domestic demand slows, exports strengthen
 - Inflation rises and stabilizes
 - Longer term, domestic demand leads



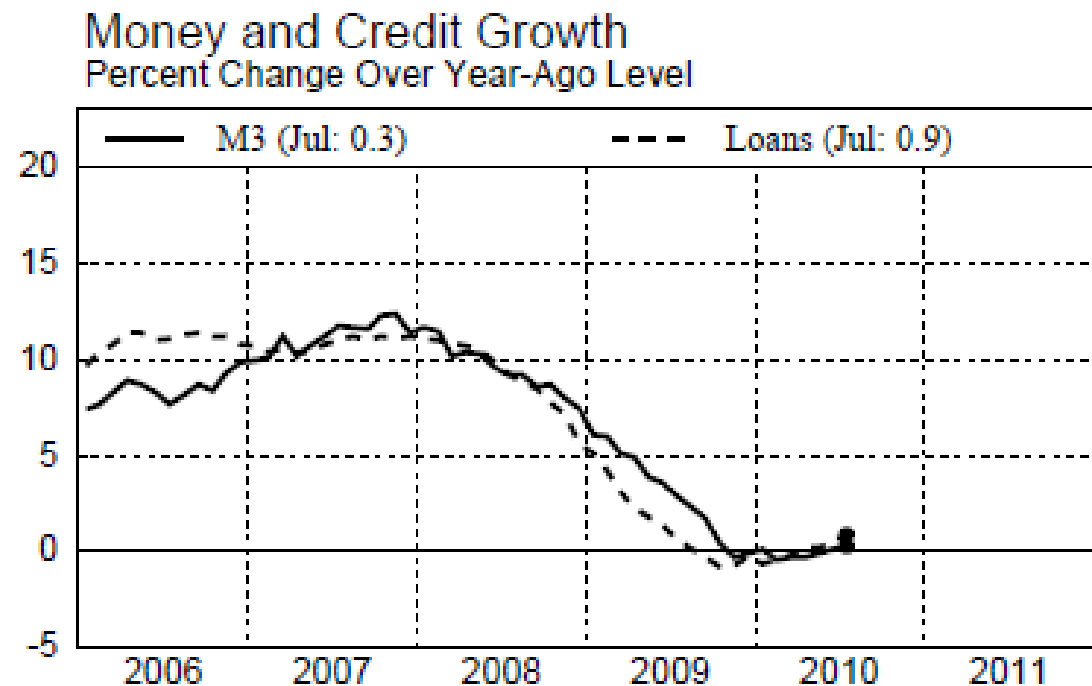
Eurozone

- Two track recovery
 - Strength in Germany, France, Netherlands
 - German exports benefit from weak euro, strong BRICs
 - Weakness in the periphery
 - Due to fiscal tightening



Eurozone

- Policy not supportive of growth
 - ECB maintains neutral policy
 - Fiscal tightening across Europe



Whither the Eurozone?

Problems with the Eurozone:

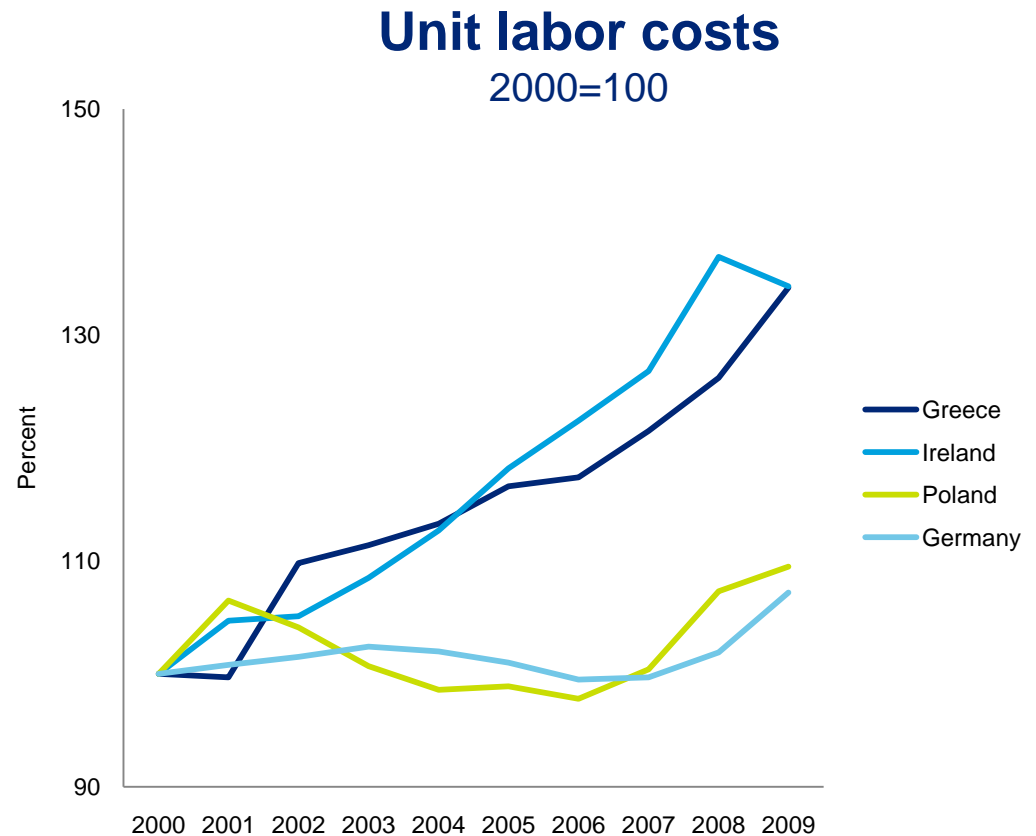
- Bad countries could borrow cheaply
- Bad countries could not devalue
- Imbalance between Germany and the Club Med countries



Whither the Eurozone?

The culprits:

- Large hidden deficits
- Unsustainable pensions
- Rising wages and poor productivity
- Failure of fiscal integration



Whither the Eurozone?

What needs to happen?

- Growth of money supply
- German re-balancing
- Cuts in deficits
- Pension reform
- Labor market reform



Fiscal policy debate

- Cut deficits now or later?
 - Exploding sovereign debt fuels debate
 - Germany and UK cutting now
 - US waiting

***“Give me chastity and continence,
but not yet”***

- Saint Augustine

Fiscal policy debate

- Arguments for cutting now
 - High debt levels damage market confidence, increase future taxes
 - Economy recovering already, does not require more stimulus
 - Cut in deficit will be offset by stronger exports, investment
 - Cut in deficit will reduce size of government and improve long-term efficiency



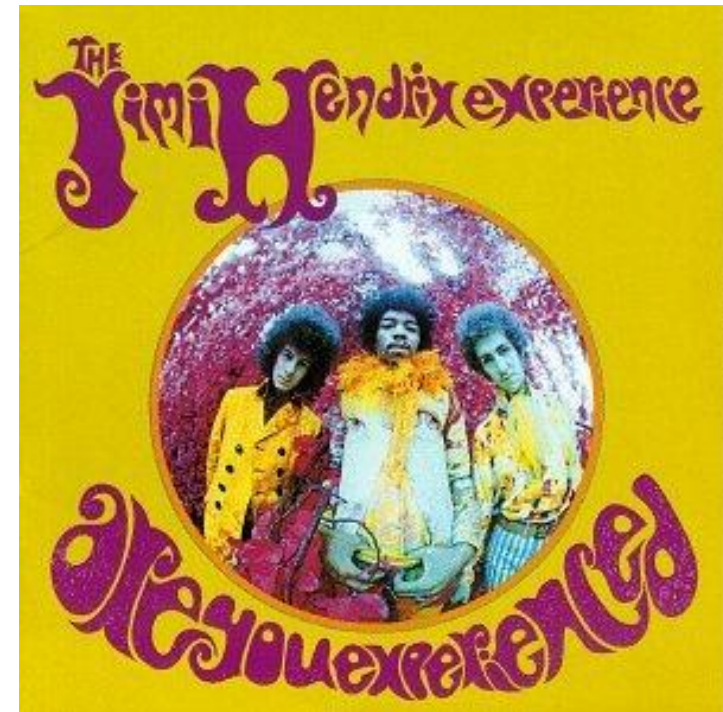
Fiscal policy debate

- Arguments for waiting
 - Private sector continues to de-leverage
 - Cutting deficit cannot lower interest rates
 - Low interest rates suggest markets not concerned about government debt
 - Cutting deficit will reduce economic activity
 - Optimal policy: run deficits now, publicize plans to cut deficits in future



Fiscal policy debate

- What does experience suggest?
 - US deficit reduction in 1990s was successful
 - Japanese deficit reduction in 1990s was damaging
 - Much depends on monetary policy
 - If markets are efficient, then low interest rates suggest not cutting deficit
 - Yet asset price bubbles suggest that markets are not efficient
 - Result: no good rule of thumb



Deloitte.

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