

# The Changing Global Economy

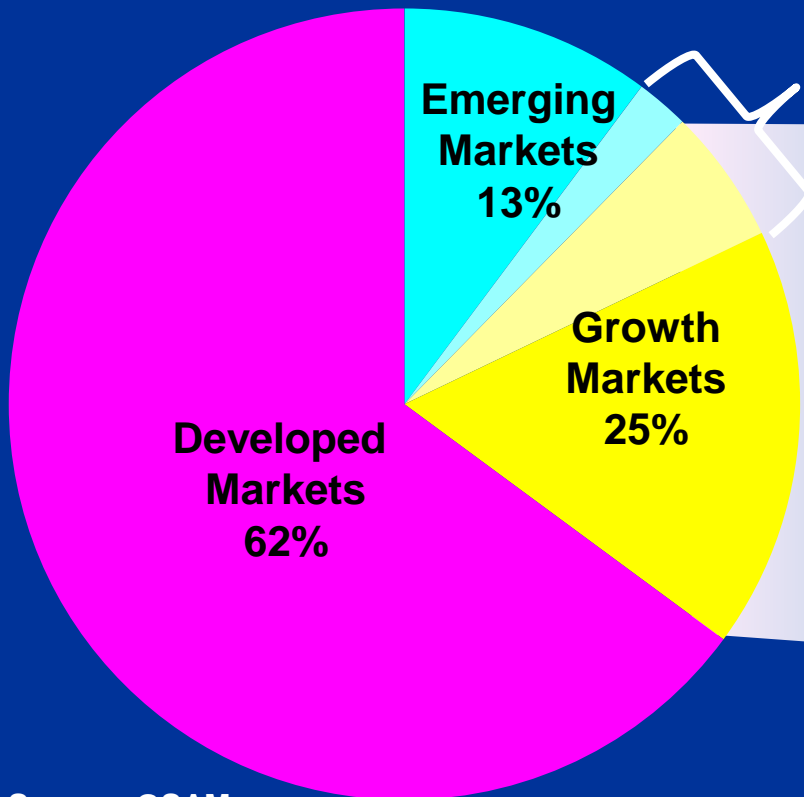
**Jim O'Neill**

**Chairman, Goldman Sachs Asset Management**

June 2012

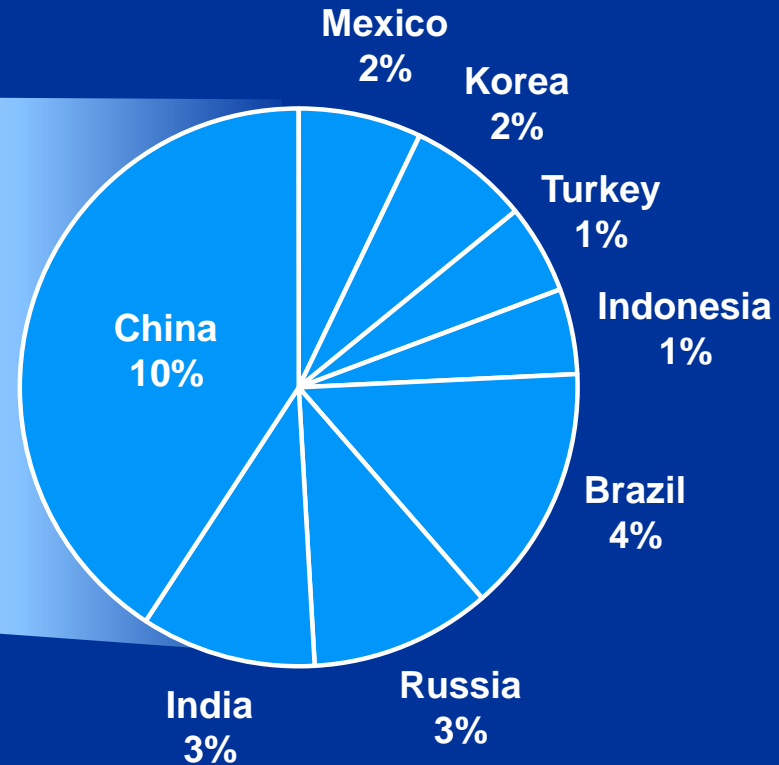
# Country Classification by 2011 GDP Share

## World



- N11  
 Bangladesh  
 Egypt  
 Iran  
 Nigeria  
 Pakistan  
 Philippines  
 Vietnam  
 Mexico  
 Korea  
 Turkey  
 Indonesia

## Growth Markets



Source: GSAM

## GDP Forecasts

	2010	2011	2012		2013	
			GSAM	Consensus	GSAM	Consensus
<b>US</b>	3.0	1.7	<b>2.2</b>	2.2	<b>2.5</b>	2.4
<b>UK</b>	2.1	0.7	<b>0.4</b>	0.3	<b>1.8</b>	1.8
<b>Canada</b>	3.2	2.5	<b>2.2</b>	2.1	<b>2.5</b>	2.2
<b>Euroland</b>	1.9	1.5	<b>-0.4</b>	-0.4	<b>1.0</b>	0.6
<b>Japan</b>	4.4	-0.7	<b>1.9</b>	2.5	<b>1.3</b>	1.3
<b>Brazil</b>	7.5	2.7	<b>3.6</b>	3.0	<b>5.0</b>	4.3
<b>China</b>	10.4	9.2	<b>8.2</b>	8.1	<b>8.0</b>	8.4
<b>India</b>	10.6	6.9	<b>7.2</b>	6.6	<b>8.0</b>	7.3
<b>Russia</b>	4.3	4.2	<b>4.0</b>	3.8	<b>5.0</b>	3.9
<b>Mexico</b>	5.5	3.9	<b>3.6</b>	3.7	<b>3.8</b>	3.5
<b>Korea</b>	6.3	3.6	<b>3.4</b>	3.0	<b>4.8</b>	3.8
<b>Indonesia</b>	6.2	6.5	<b>6.0</b>	6.0	<b>6.1</b>	6.2
<b>Turkey</b>	9.0	8.5	<b>3.0</b>	2.5	<b>5.0</b>	4.6
<b>Advanced</b>	3.1	1.3	<b>1.2</b>	1.2	<b>1.8</b>	1.6
<b>BRICs</b>	9.1	7.4	<b>7.0</b>	6.7	<b>7.4</b>	7.3
<b>Growth Markets</b>	8.5	7.0	<b>6.4</b>	6.1	<b>6.9</b>	6.7
<b>World</b>	5.3	3.8	<b>3.5</b>	3.4	<b>4.1</b>	3.9

Consensus data as of June 2012.

Source: GSAM and Consensus Economics

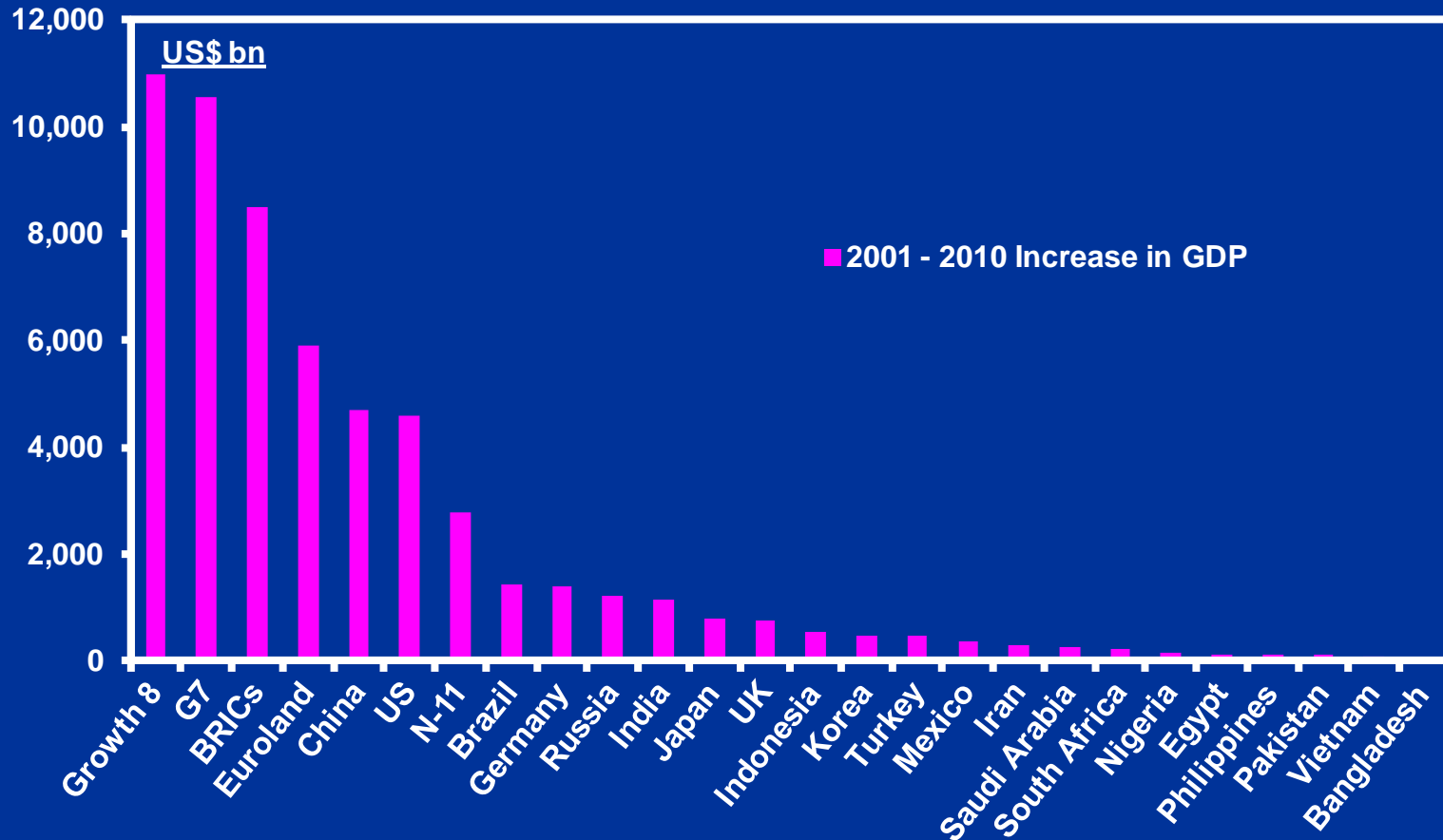
## Inflation Forecasts

	2009	2010	2011	2012*	2013*
<b>US</b>	1.9	1.7	3.2	2.2	2.0
<b>UK</b>	2.1	3.4	5.3	3.2	2.6
<b>Canada</b>	0.8	2.2	2.9	2.1	2.0
<b>Euroland</b>	0.9	2.2	2.6	2.3	0.6
<b>Japan</b>	-1.7	-0.4	-0.3	0.1	0.0
<b>Brazil</b>	4.3	5.9	6.5	5.1	5.4
<b>China</b>	0.7	4.7	5.4	3.3	3.6
<b>India</b>	15.0	9.5	8.3	7.7	6.9
<b>Russia</b>	8.8	8.8	6.8	6.3	6.0
<b>Mexico</b>	3.6	4.4	3.2	3.7	3.7
<b>Korea</b>	2.8	3.5	4.4	2.8	3.1
<b>Indonesia</b>	2.8	7.0	5.4	4.8	5.5
<b>Turkey</b>	6.5	6.4	6.3	9.6	6.6
<b>Advanced</b>	1.1	1.7	2.7	2.0	1.3
<b>BRICS</b>	5.2	6.4	6.3	4.8	4.8
<b>Growth Markets</b>	4.9	6.1	6.0	4.8	4.7
<b>World</b>	2.6	3.5	4.1	3.2	2.9

\* Consensus Economics June 2012

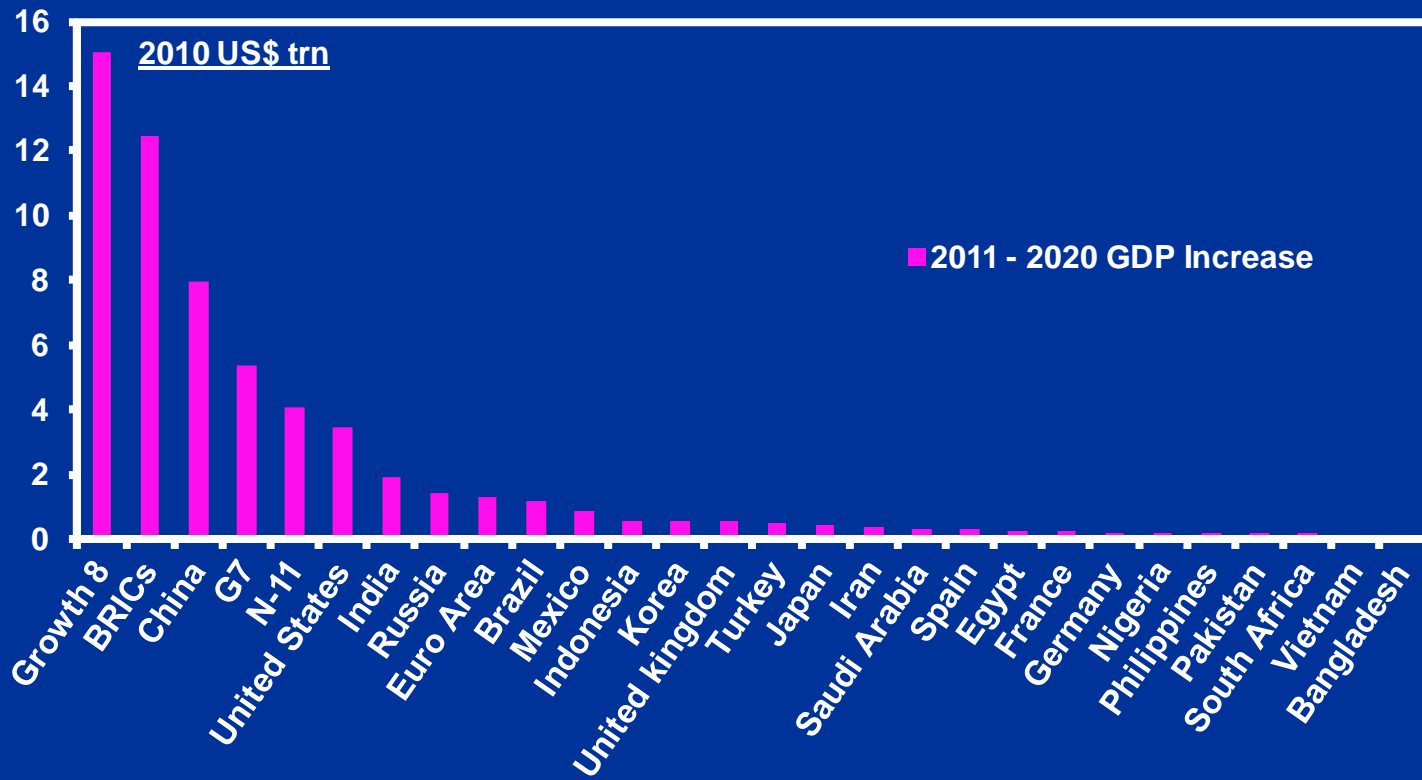
Source: IMF and Consensus Economics

# 2001 - 2010 Change in Global GDP



Source: IMF

# Change in US\$ Size of GDP from 2011 to 2020



Source: GS Global ECS Research. GSAM Calculations

## World GDP (Ave Growth)

	1981-1990	1991-2000	2001-2010	2011-2020
<b>World</b>	3.3	3.3	3.5	4.2
<b>United States</b>	3.3	3.4	1.6	2.1
<b>Euro Area</b>	2.4	2.3	1.2	2.2
<b>Japan</b>	4.6	1.2	0.7	1.6
<b>BRICs</b>	5.3	5.5	8.1	6.6
<b>Growth Markets</b>	5.1	5.2	6.9	6.2
<b>N-11</b>	4.5	4.4	4.2	5.3

Source: IMF, GS Global ECS Research

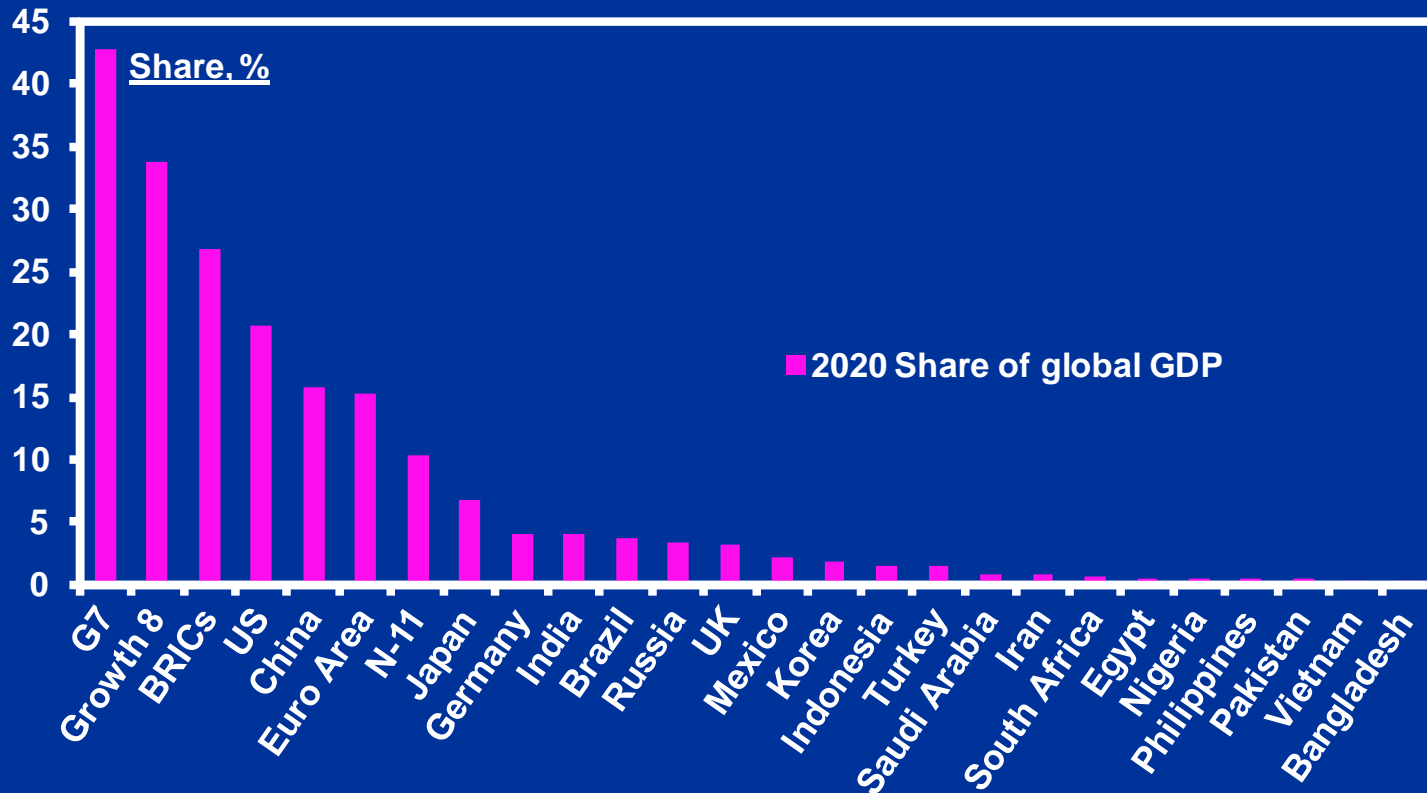
## China vs European Periphery



Source: IMF, GSAM

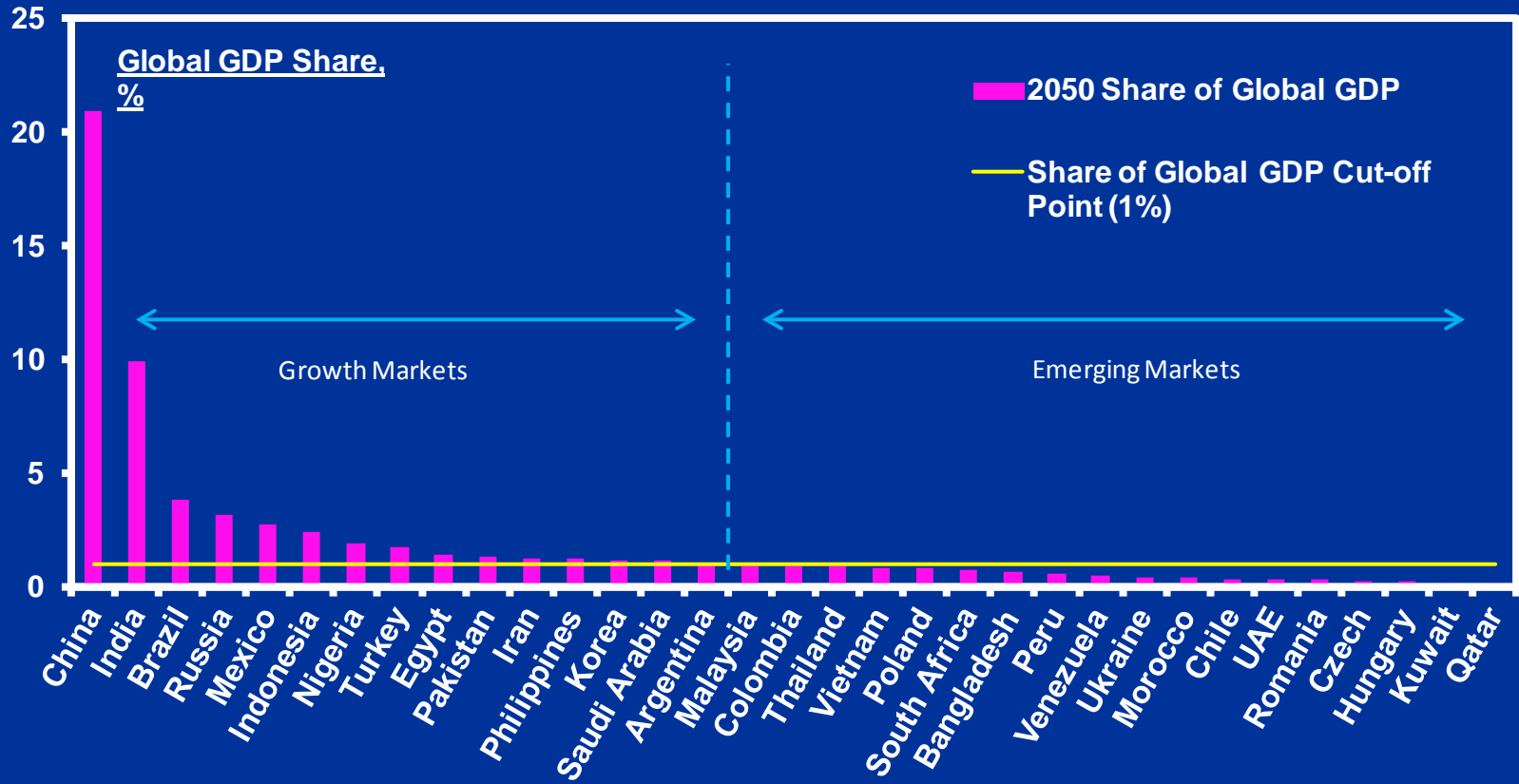


# Share of Global GDP in 2020



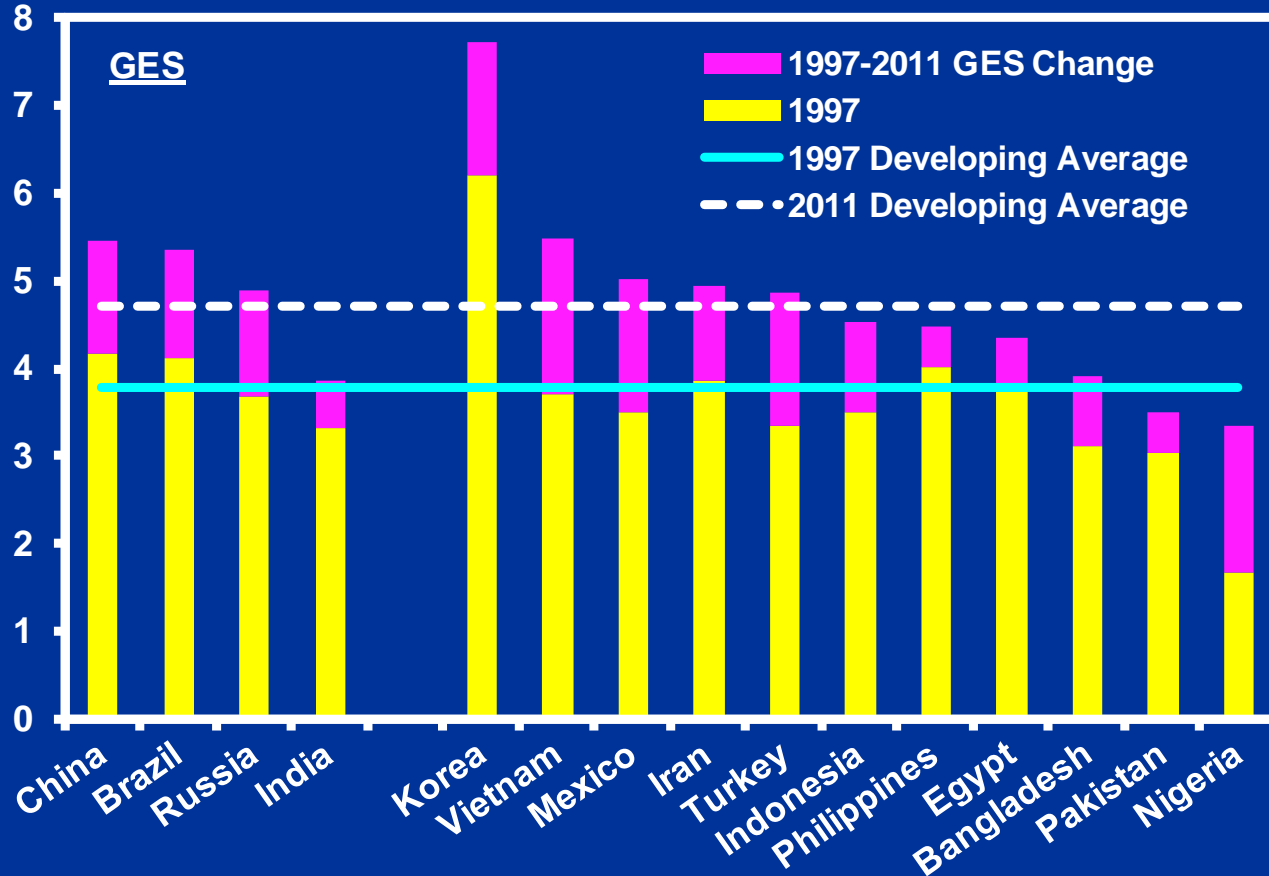
Source: GS Global ECS Research. GSAM Calculations

# Growth Market / Emerging Market Split



Source: GS Global ECS Research. GSAM Calculations

# BRICs & N11. 2011 Growth Environment Score (GES)



Source: GS Global ECS Research

## GES For Growth Markets (and US)

	Korea	China	Brazil	Mexico	Russia	Turkey	Indonesia	India	United States
<b>Headline</b>	7.7	5.4	5.4	5.0	4.9	4.9	4.5	3.9	7.0
<b>Rule of Law</b>	7.0	4.3	5.0	3.9	3.4	5.2	3.7	4.9	8.2
<b>Corruption</b>	5.8	3.8	5.1	4.3	2.9	5.0	3.5	4.0	7.5
<b>Political Stability</b>	5.9	4.5	4.3	3.1	2.5	2.4	2.7	3.1	6.8
<b>Government Deficit</b>	5.8	3.8	3.6	2.8	3.2	3.6	4.4	0.8	0.0
<b>Inflation</b>	10.0	10.0	9.7	9.9	9.2	8.7	9.7	7.8	9.7
<b>External Debt</b>	..	9.3	8.6	8.4	7.5	6.3	7.5	8.5	..
<b>GFCF</b>	5.7	9.1	3.7	4.0	4.4	3.7	6.4	5.9	2.9
<b>Openness</b>	4.7	3.6	1.8	3.7	2.3	2.6	2.8	2.7	2.0
<b>Life Expectancy</b>	9.1	7.6	7.6	8.3	6.7	7.7	6.7	6.0	8.6
<b>Schooling</b>	9.5	6.5	8.0	6.7	7.3	7.1	6.1	4.7	8.9
<b>Mobiles</b>	9.8	5.6	9.0	7.5	10.0	8.7	6.7	4.5	8.9
<b>Computers</b>	10.0	0.7	2.1	1.9	1.7	0.8	0.3	0.4	10.0
<b>Internet</b>	10.0	3.3	4.5	3.0	3.4	4.2	1.0	0.6	9.0
<b>Servers</b>	5.1	0.0	0.2	0.1	0.1	0.4	0.0	0.0	10.0
<b>Patents</b>	10.0	1.6	0.8	0.8	1.8	0.3	0.1	0.2	9.9
<b>R and D</b>	8.0	3.7	2.7	0.9	2.6	2.1	0.2	2.0	7.1
<b>Cost of Business</b>	8.5	9.6	9.3	8.8	9.7	8.3	7.9	4.4	9.9
<b>Urbanization</b>	9.1	5.0	9.6	8.6	8.1	7.7	6.0	3.3	9.1

**Source: GS Global ECS Research**

# GES Aggregates

	Growth Environment Score		
	2011	2010	1997
<b>World</b>	5.05	4.93	4.19
<b>DM</b>	6.89	6.79	6.44
<b>EM</b>	4.71	4.58	3.78
<b>Africa</b>	3.77	3.64	2.80
<b>Asia</b>	5.24	5.09	4.55
<b>CEE</b>	5.33	5.24	4.32
<b>Developed Europe</b>	6.81	6.72	6.25
<b>Latin America</b>	5.16	5.06	4.24
<b>MENA</b>	5.32	5.16	4.40
<b>North America</b>	7.06	6.96	7.16
<b>BRICs</b>	4.88	4.73	3.81
<b>N-11</b>	4.73	4.65	3.60
<b>G7</b>	6.70	6.60	6.23
<b>Broad EM</b>	4.72	4.59	3.80

Source: GS Global ECS Research

# Who is Fit for EMU? (Growth Markets)

	Cyclically adjusted budget deficit (%GDP)	Gross General Govt. Debt (% GDP)	Growth Environment Score
India	-9.1	67.6	3.9
Brazil	-2.7	65.1	5.4
Mexico	-3.2	42.9	5.0
Turkey	-1.8	36.0	4.9
Korea	2.4	32.9	7.7
Indonesia	-1.6	23.2	4.5
China	0.0	22.0	5.4
Russia	1.6	8.4	4.9

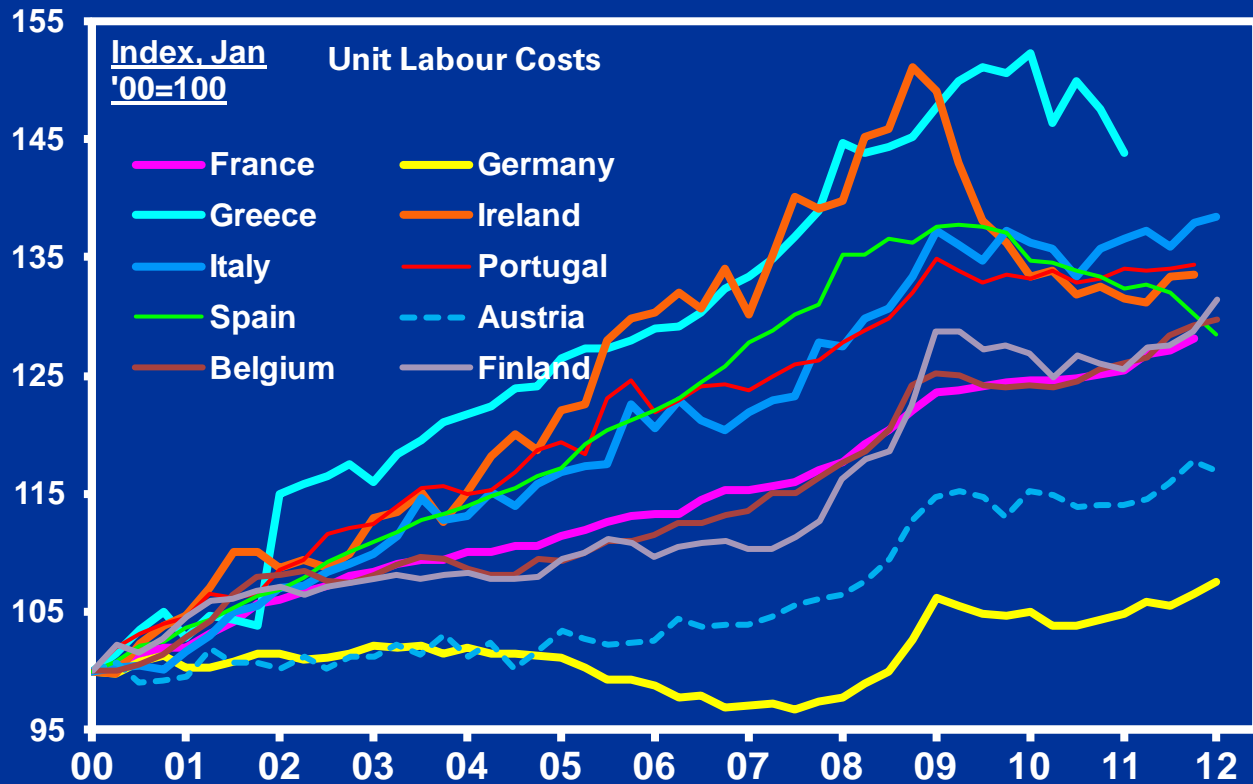
**Note, data are 2012 estimates**  
**Source: IMF and GS Global ECS**

# Who is Fit for EMU? (Developed Markets)

	Cyclically adjusted budget deficit (%GDP)	Gross General Gov. Debt (% GDP)	Growth Environment Score
Germany	-0.4	81.6	7.0
France	-3.3	90.7	6.5
Italy	-0.8	125.3	5.8
Spain	-4.7	78.1	6.2
Netherlands	-2.3	66.5	7.4
Belgium	-2.7	94.3	7.0
Austria	-3.0	73.9	6.9
Greece	-4.7	189.1	5.0
Finland	1.2	50.3	7.2
Ireland	-5.5	115.4	6.1
Portugal	-1.3	111.8	5.7
Slovakia	-3.4	46.9	6.0
EMU Average	-2.4	90.0	6.8
UK	-5.1	86.6	6.8
US	-5.6	107.6	7.0
Canada	-3.2	86.7	7.1
Japan	-8.6	241.0	6.7
Australia	-1.8	23.8	7.6
Sweden	1.2	32.6	7.6

**Note, data are 2012 estimates. Source: IMF and Eurostat**

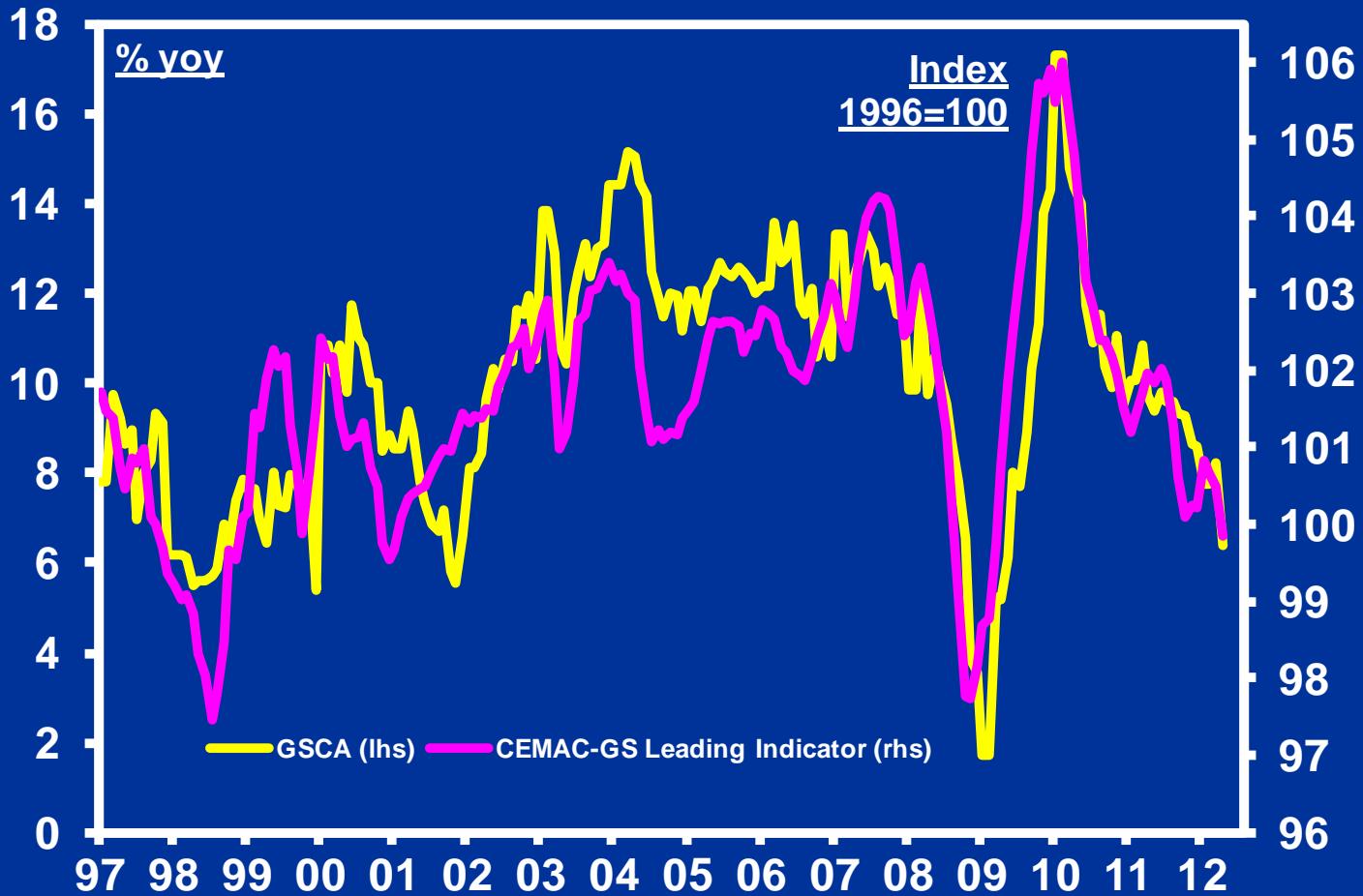
# Euro Area Competitiveness



Source: Haver Analytics

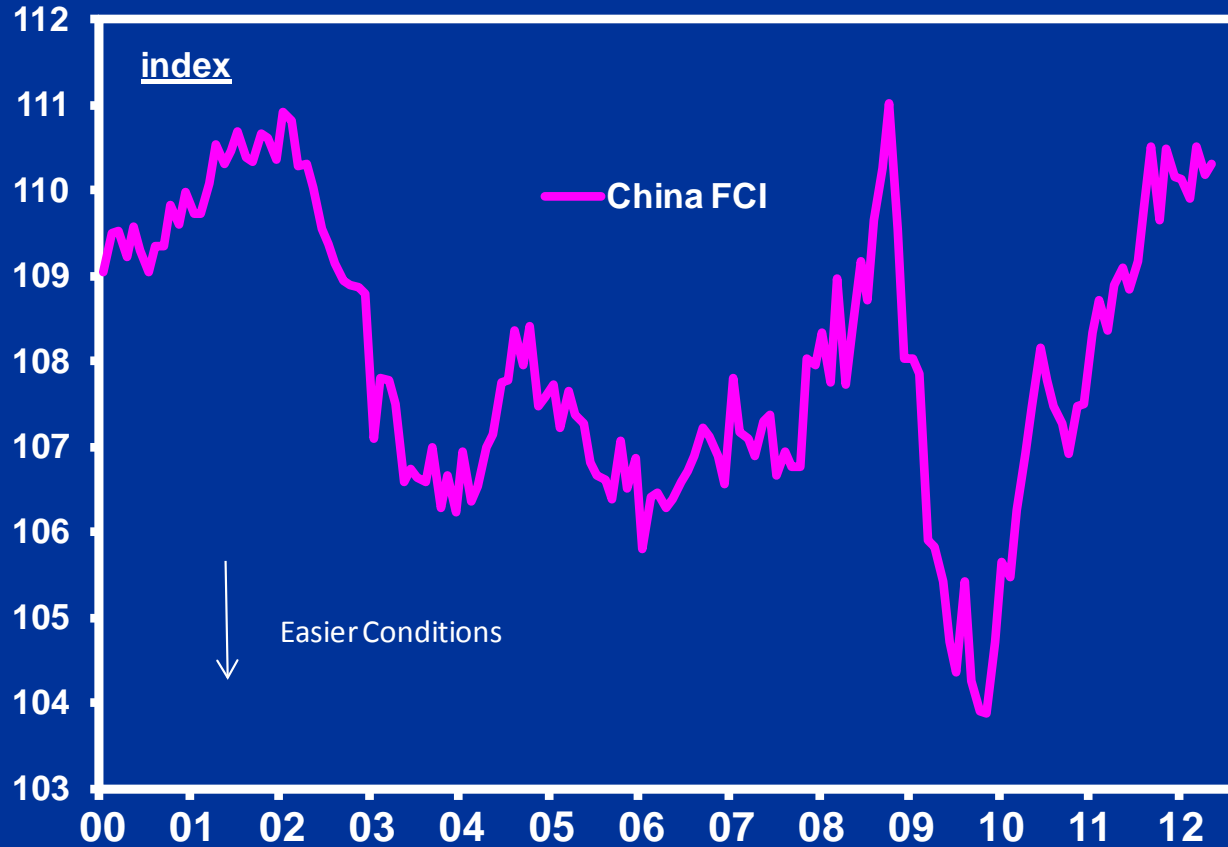


# China Lead Indicators



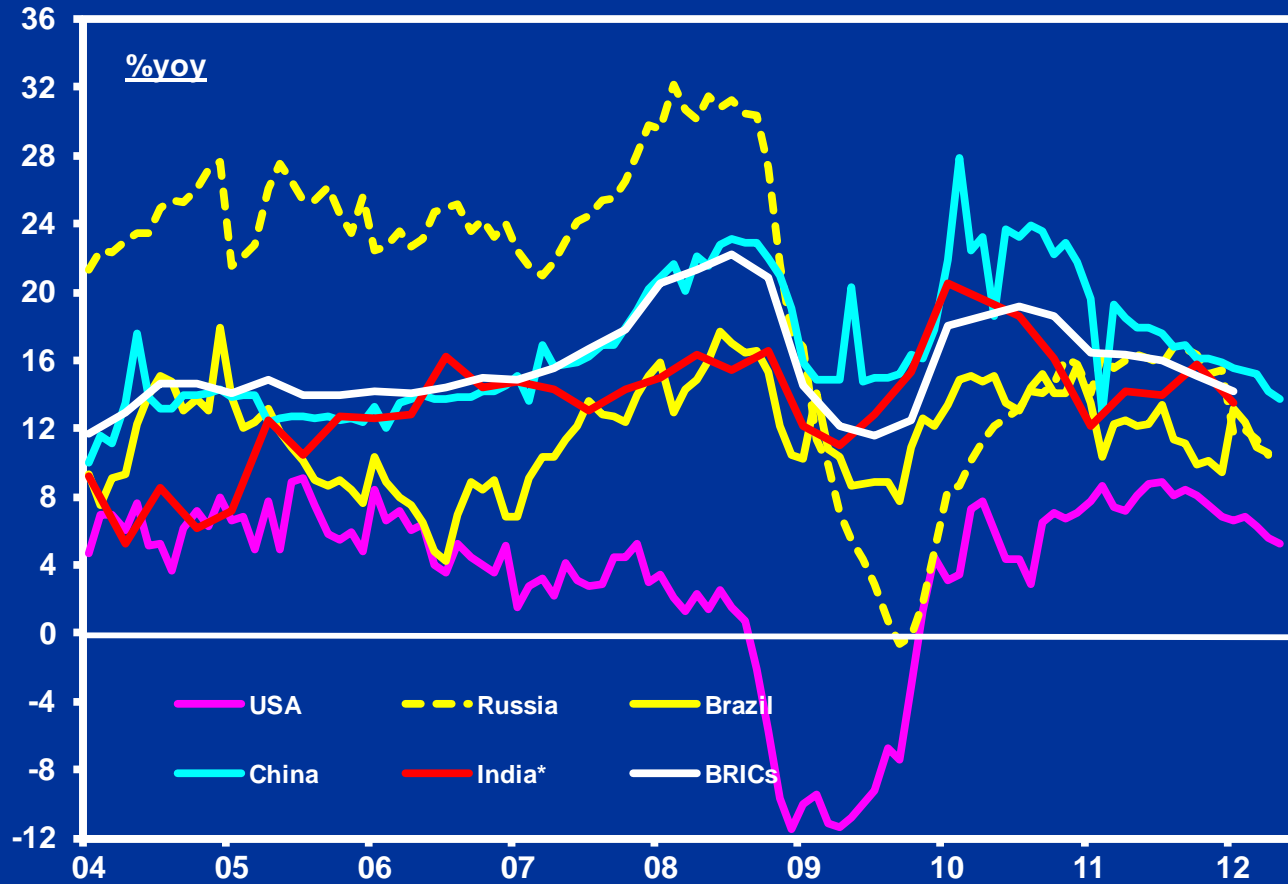
Source: GS Global ECS Research

# China FCI



Source: GS Global ECS Research

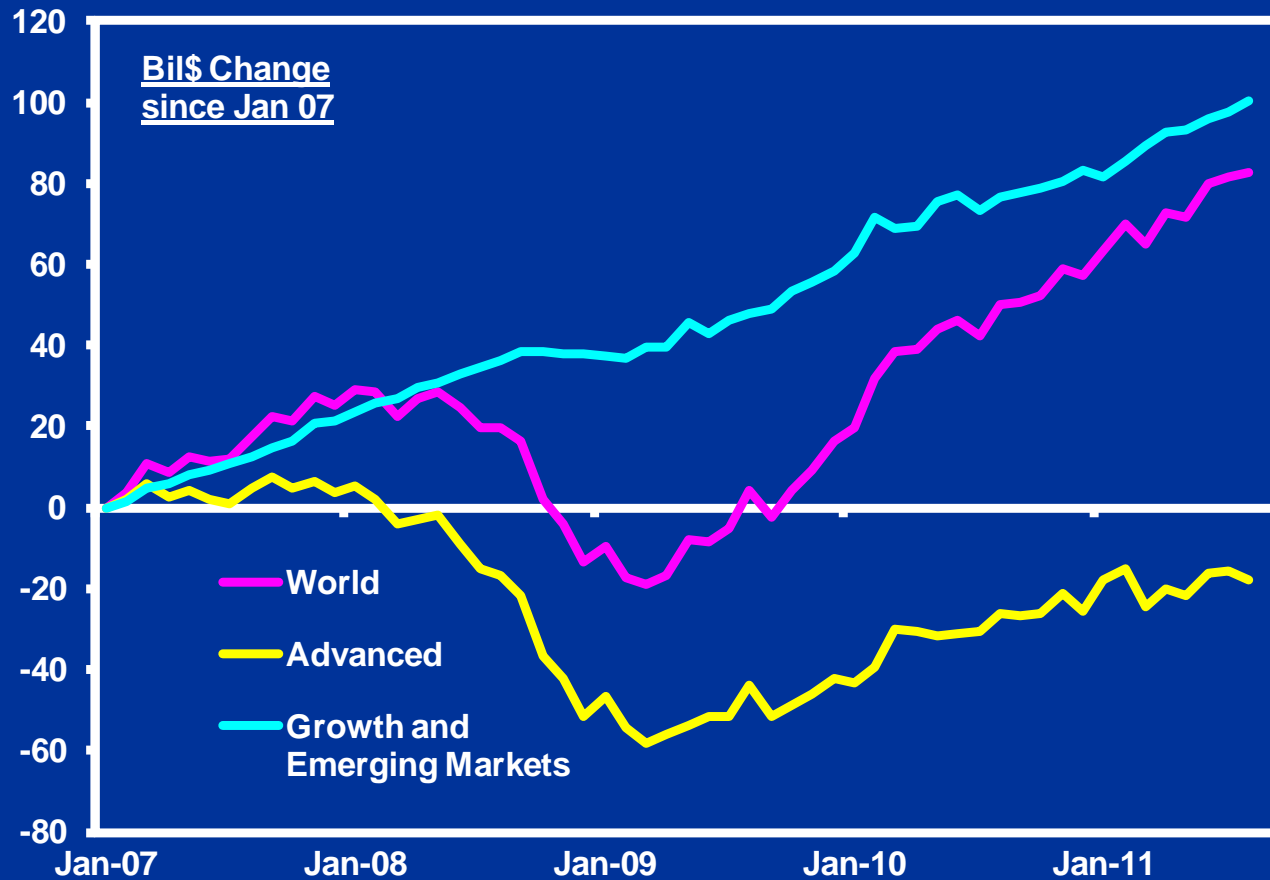
# Retail Sales US and BRICs



\* Private final consumption

Source: GS Global ECS Research

# Change in Real Retail Sales in Developed vs Growth Plus (Jan '07 to Present)



Source: National Sources, GS Global ECS Research.

# China GDP and its Changes

	2001, \$bn	2011, \$bn	Nominal % yoy	Real % yoy
<b>GDP</b>	1,290	7,300	15.1	10.1
<b>Exports (net)</b>	30	190	24.1	18.7
<b>Investment</b>	460	3,330	18.4	13.3
<b>Private Consumption</b>	600	2,510	12.2	7.4
<b>Public Consumption</b>	210	960	13.4	8.5

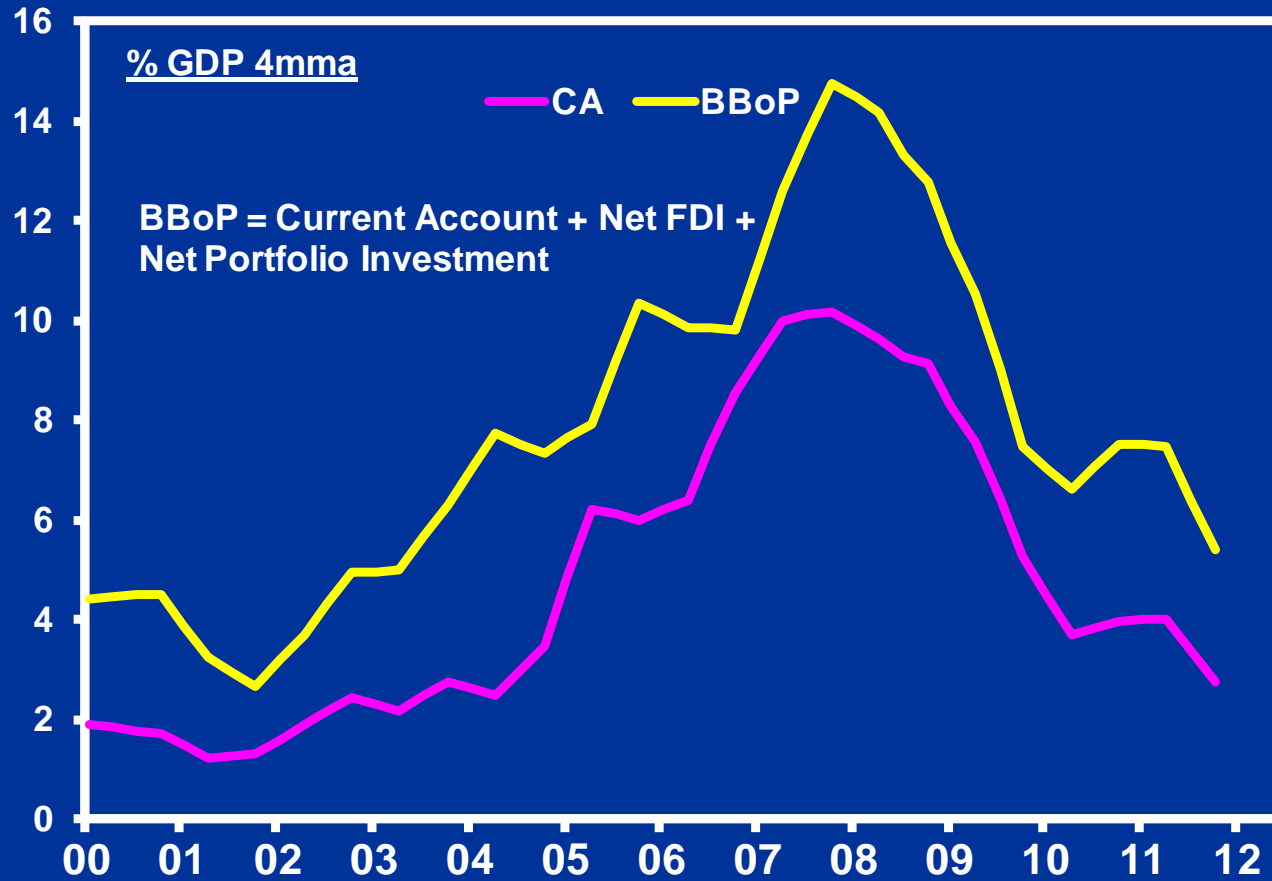
Source: IFS and GSAM calculations

# China Retail Sales Versus IP



Source: Haver Analytics and GSAM calculations

# China BBoP and Current Account Surplus



Source: Haver Analytics and GSAM calculations

# China Export and Import Growth

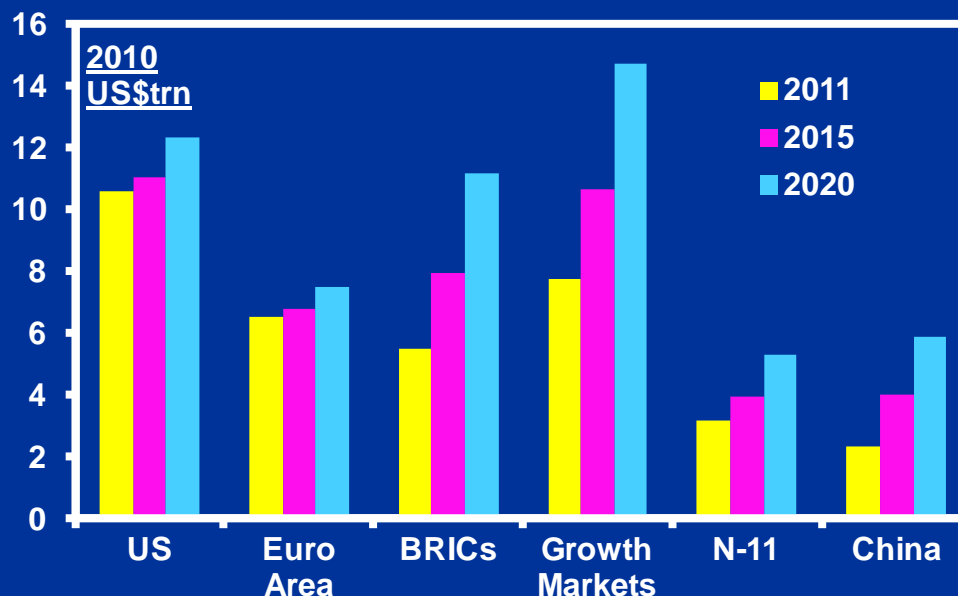


Source: Haver Analytics and GSAM calculations



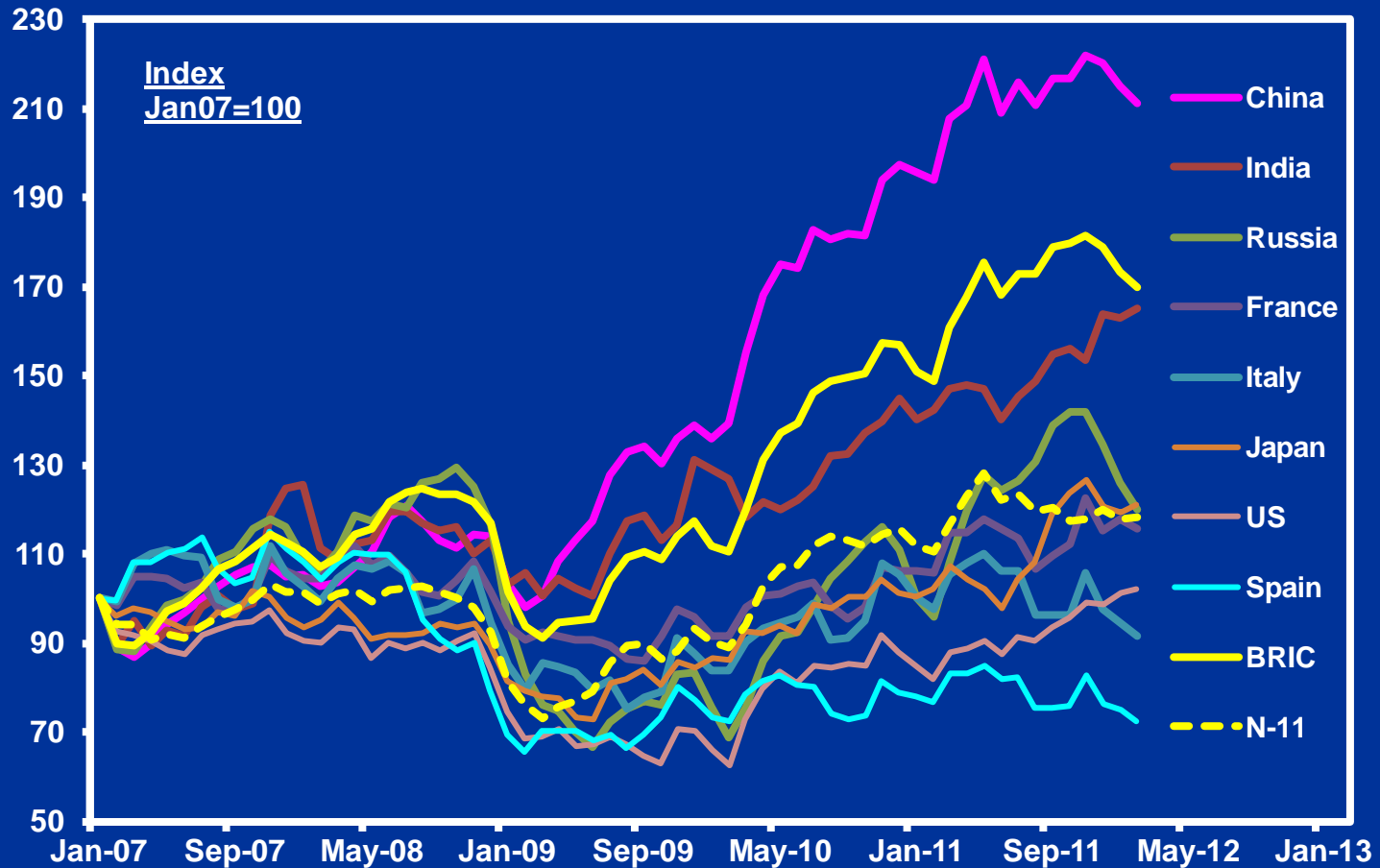
# Growth Markets Consumption

2010 USD trn	2011	2015	2020
US	10.6	11.0	12.4
Euro Area	6.6	6.8	7.5
BRICs	5.4	7.8	11.0
Growth Markets	7.7	10.5	14.5
N-11	3.2	3.9	5.3
China	2.5	3.9	5.7



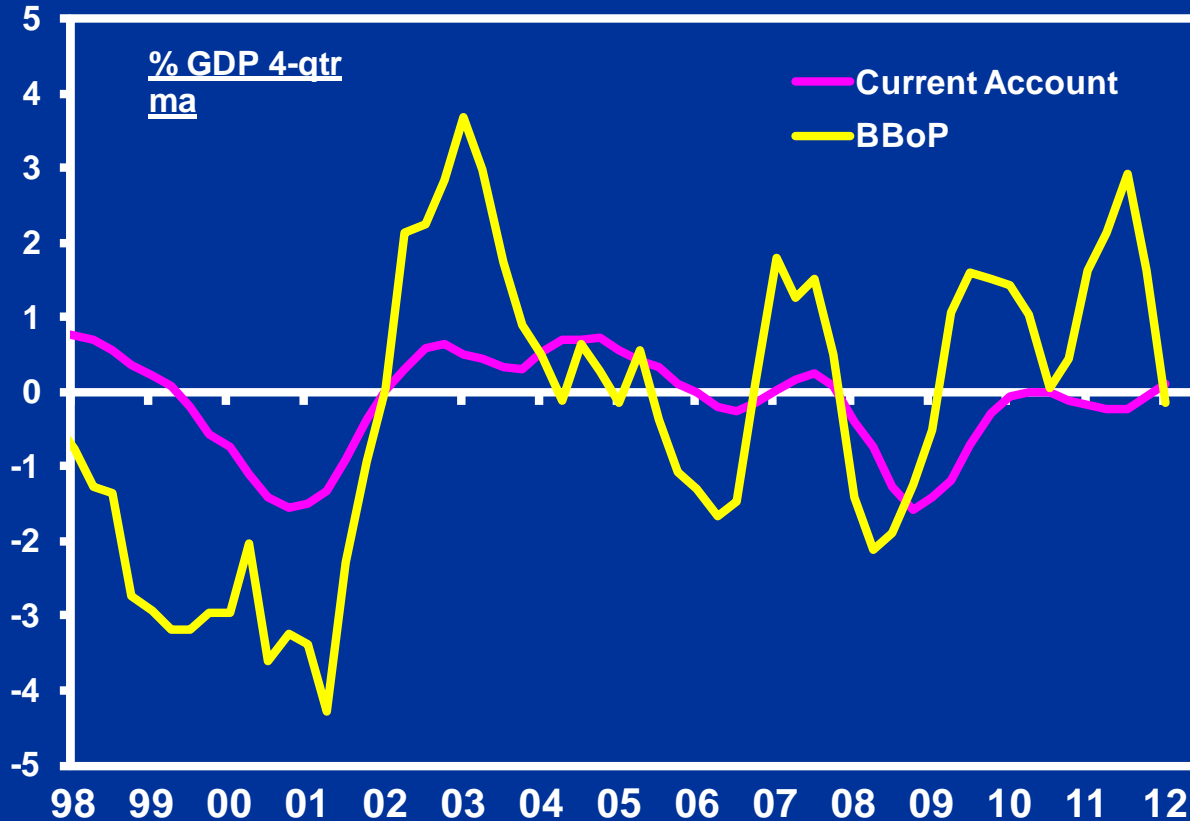
Source: GS Global ECS Research, Haver Analytics

# Germany's Exports to Asia Rising – Stabilisation Elsewhere



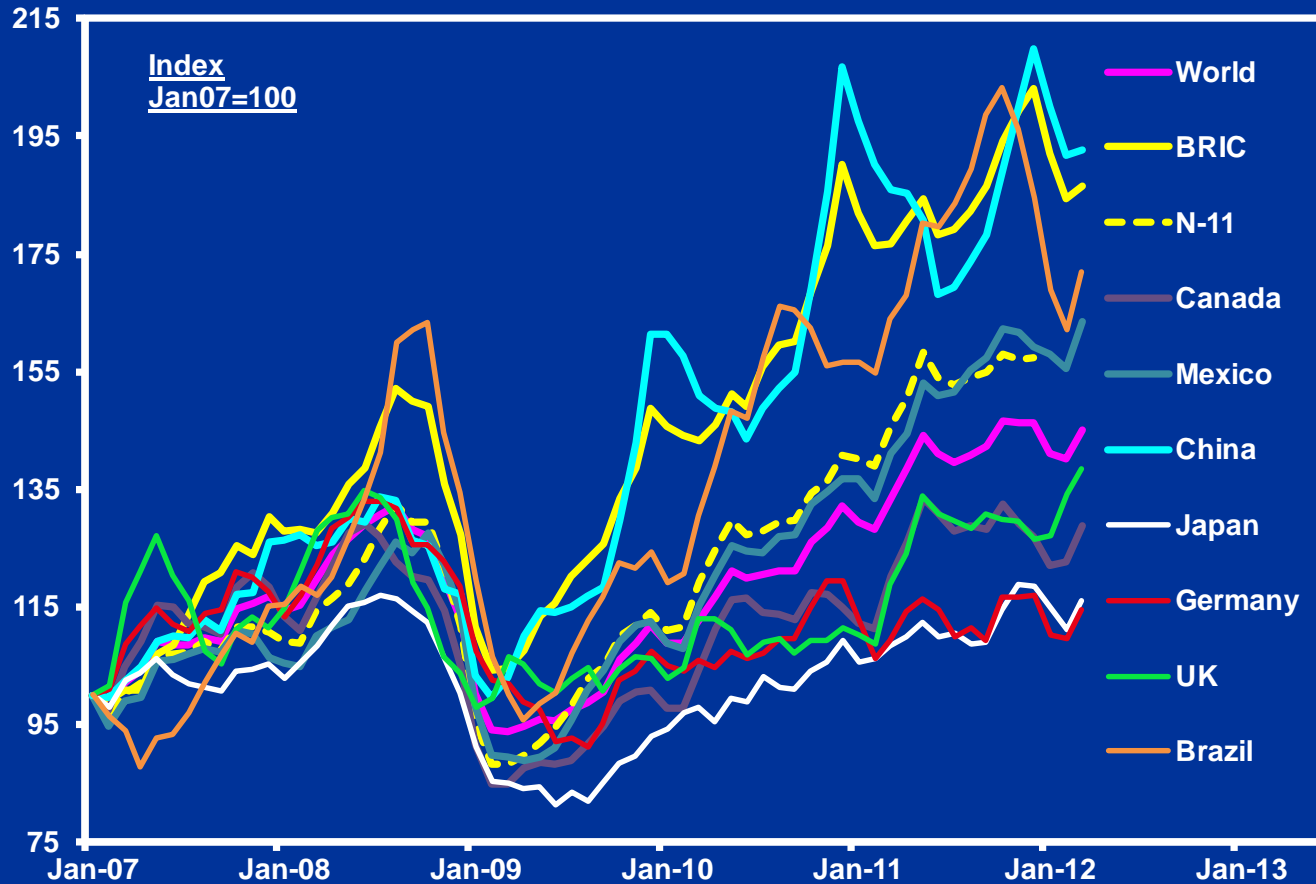
Source: Haver Analytics and GSAM calculations

# Euro Area CA vs BBoP



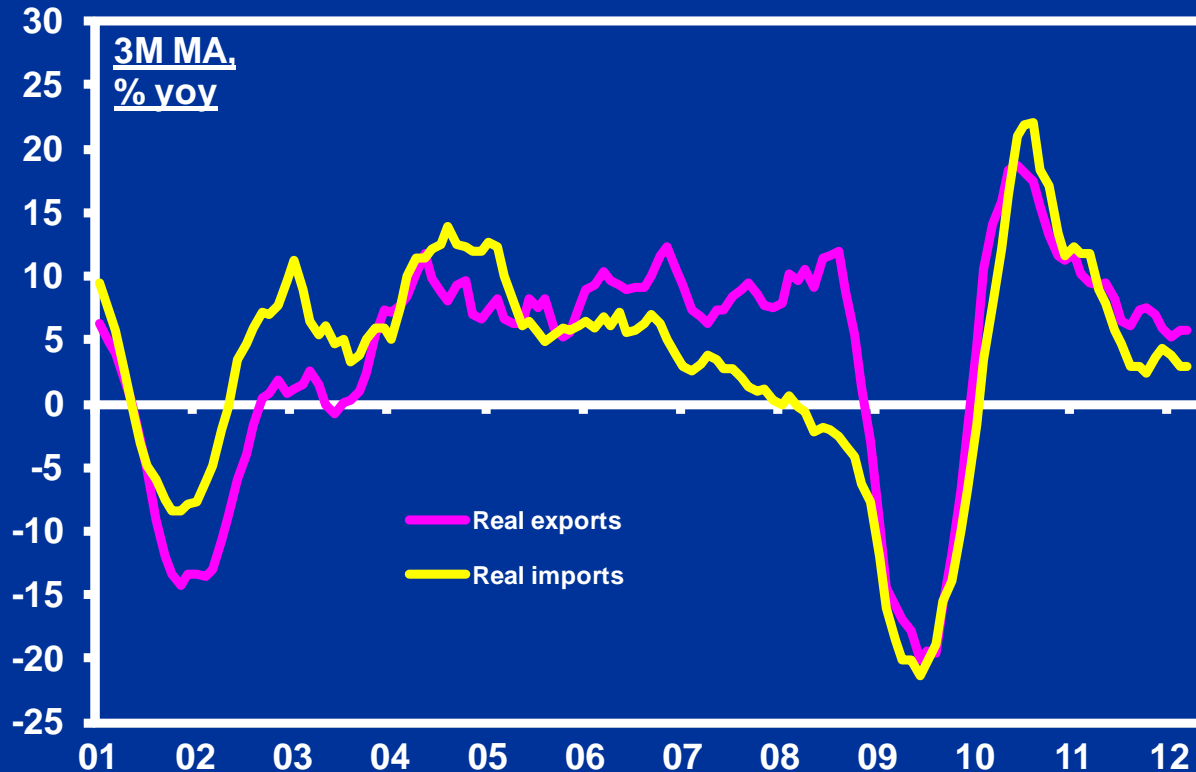
Source: Haver Analytics

# US Exports to Key Destinations



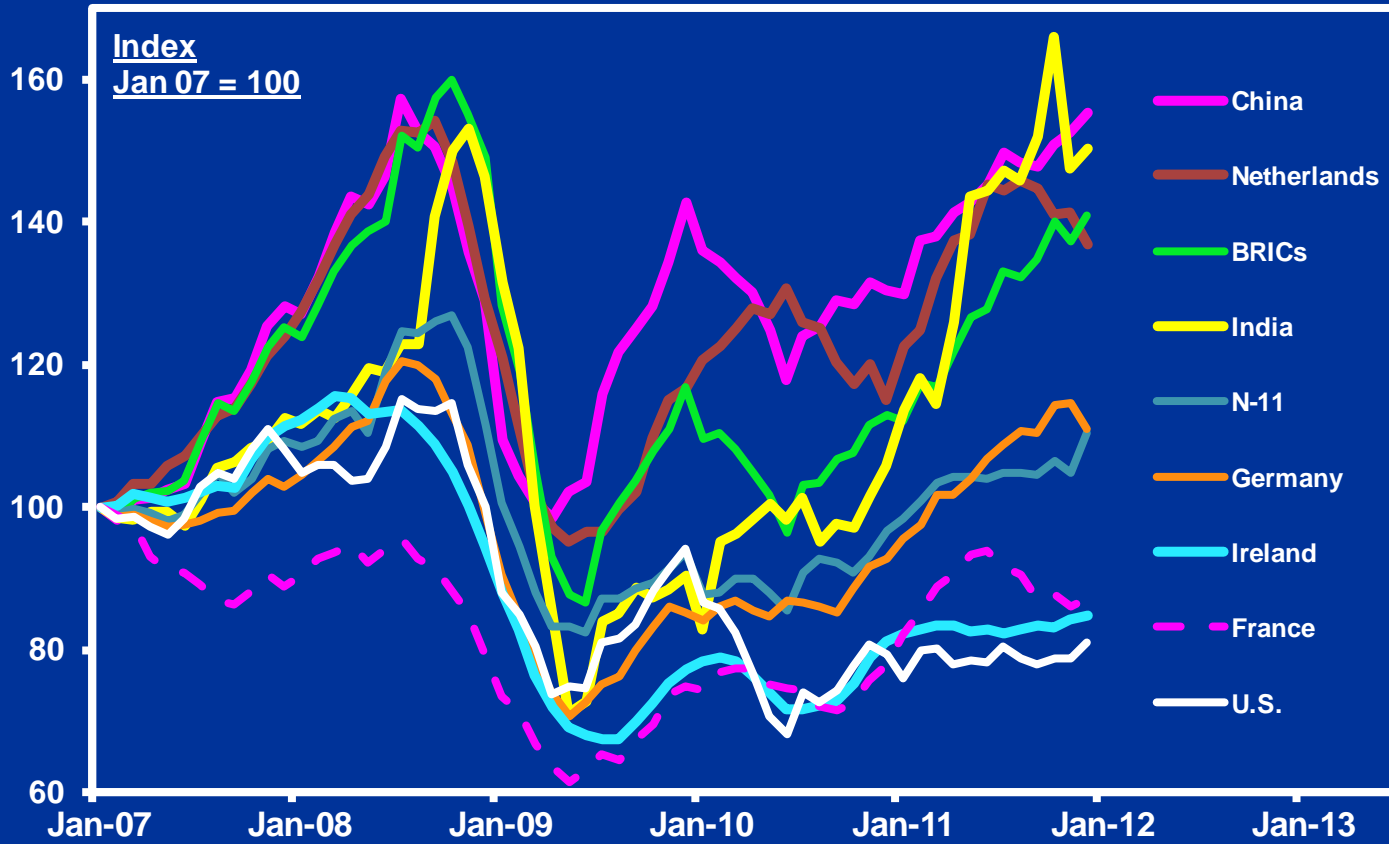
Source: Haver Analytics and GSAM Calculations.

# US Export and Import Growth



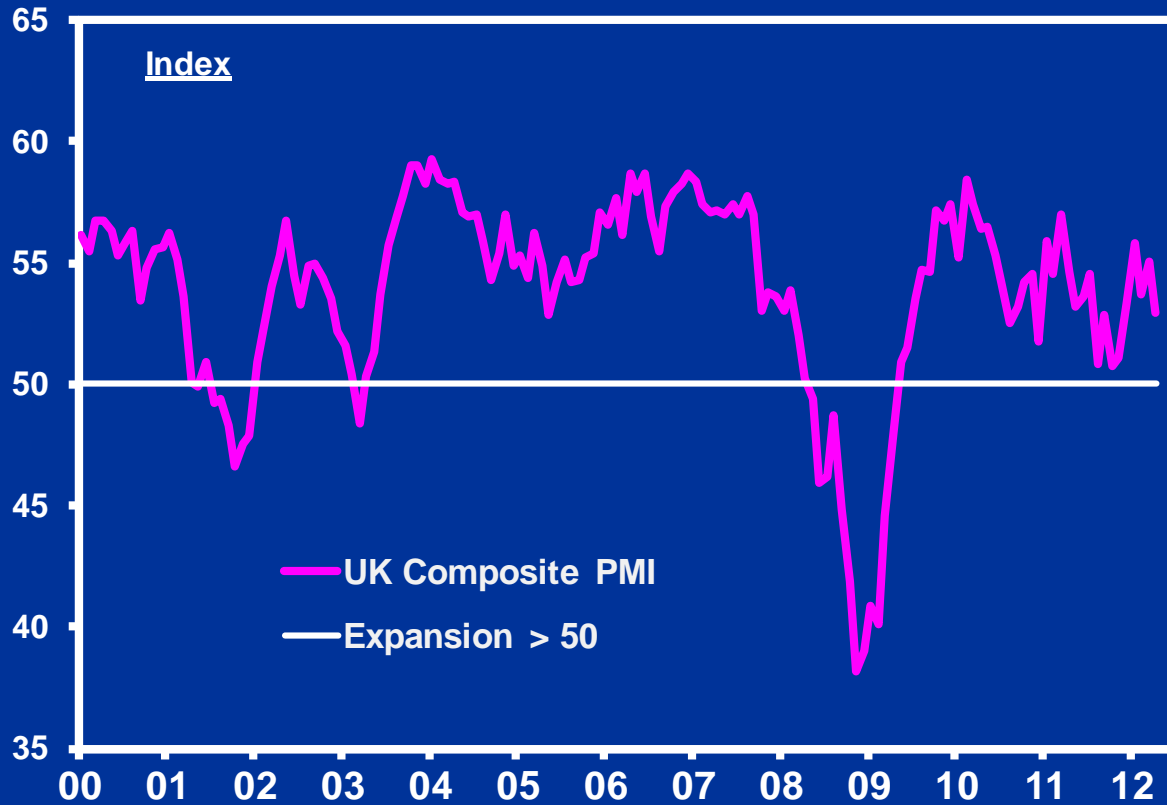
Source: Haver Analytics

# UK Exports to Key Destinations



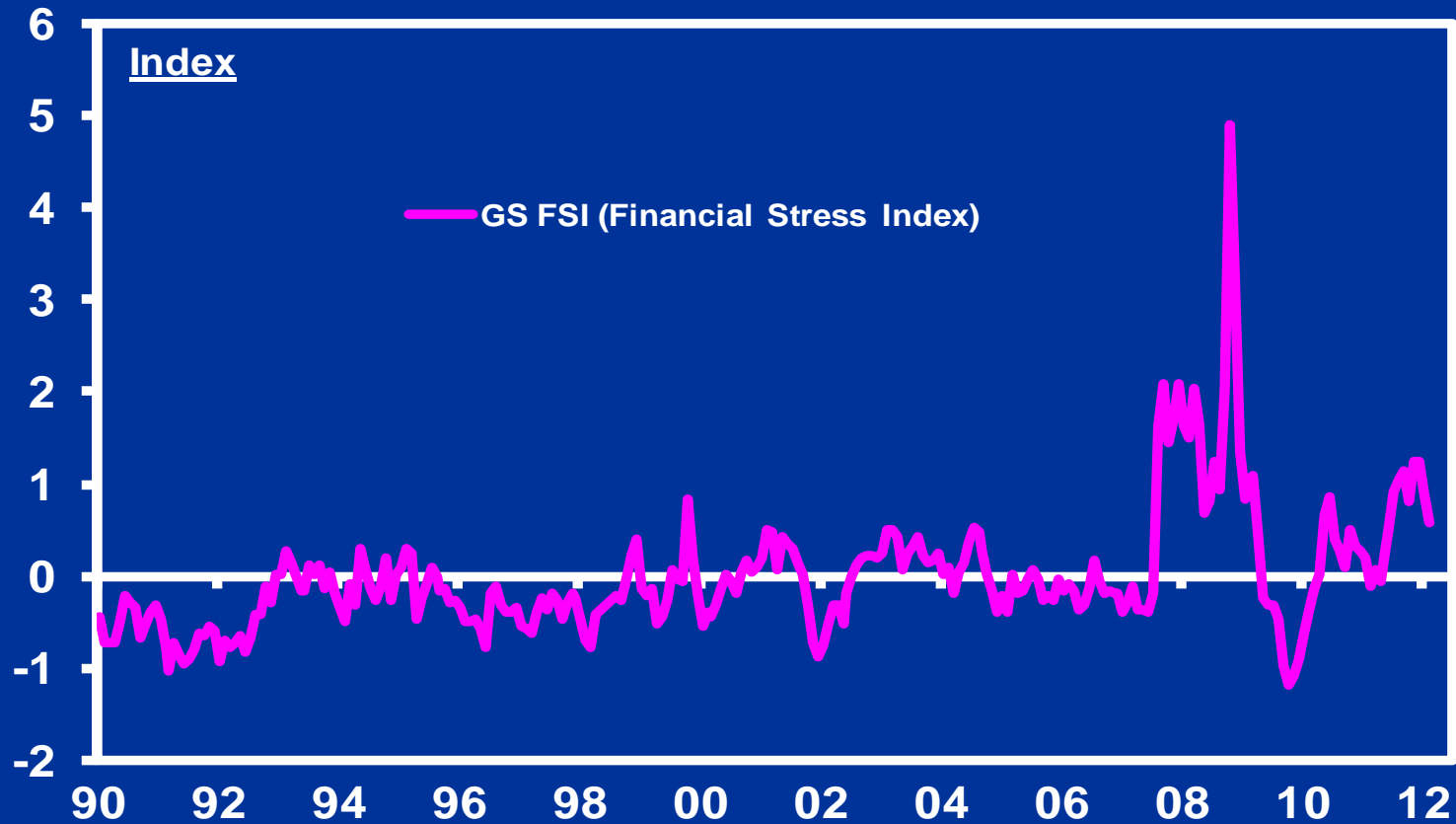
Source: Haver Analytics and GSAM Calculations.

# UK Composite PMI



Source: Haver Analytics

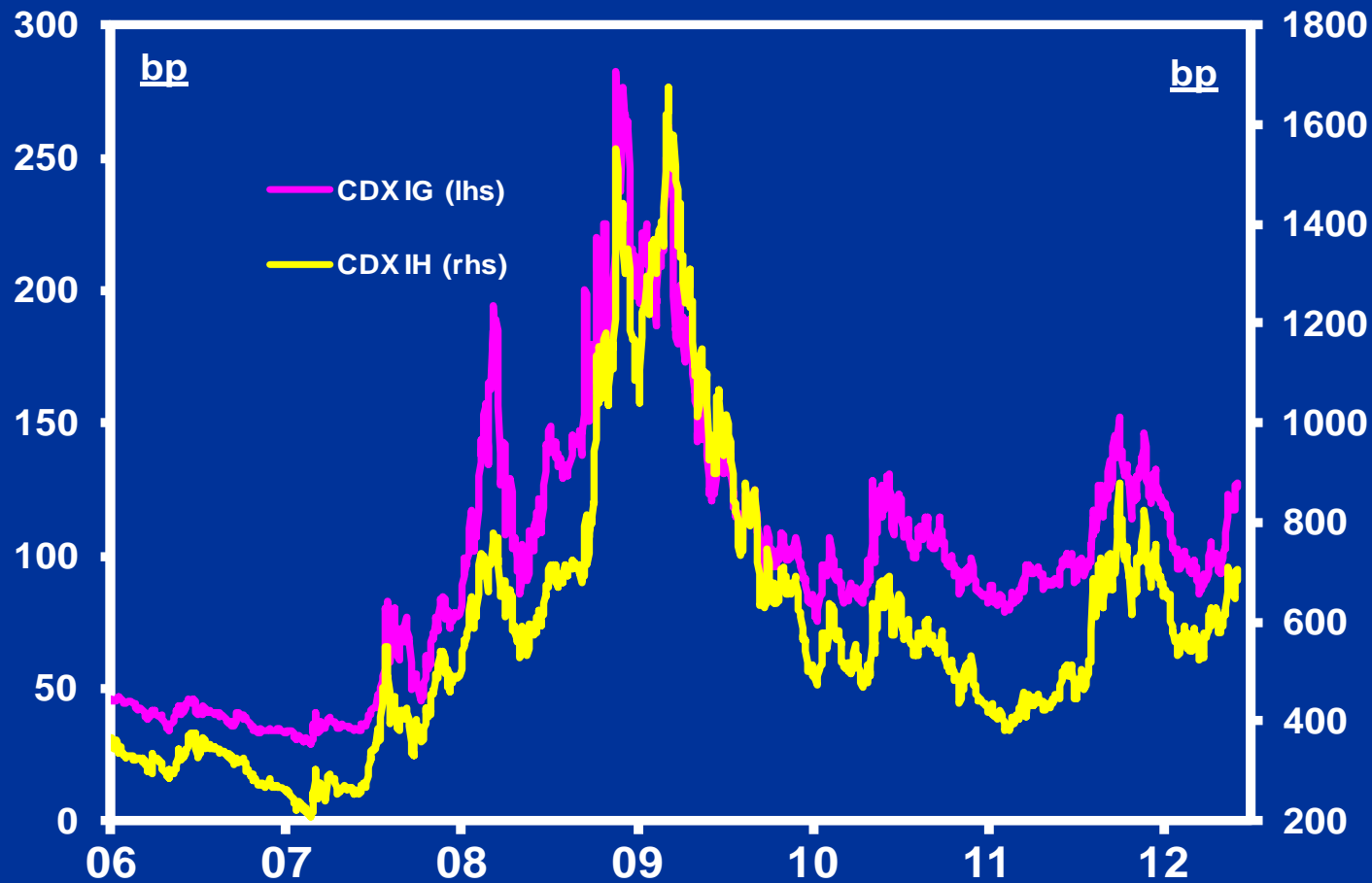
# 'Crisis' Indicator



Source: GS Global ECS Research

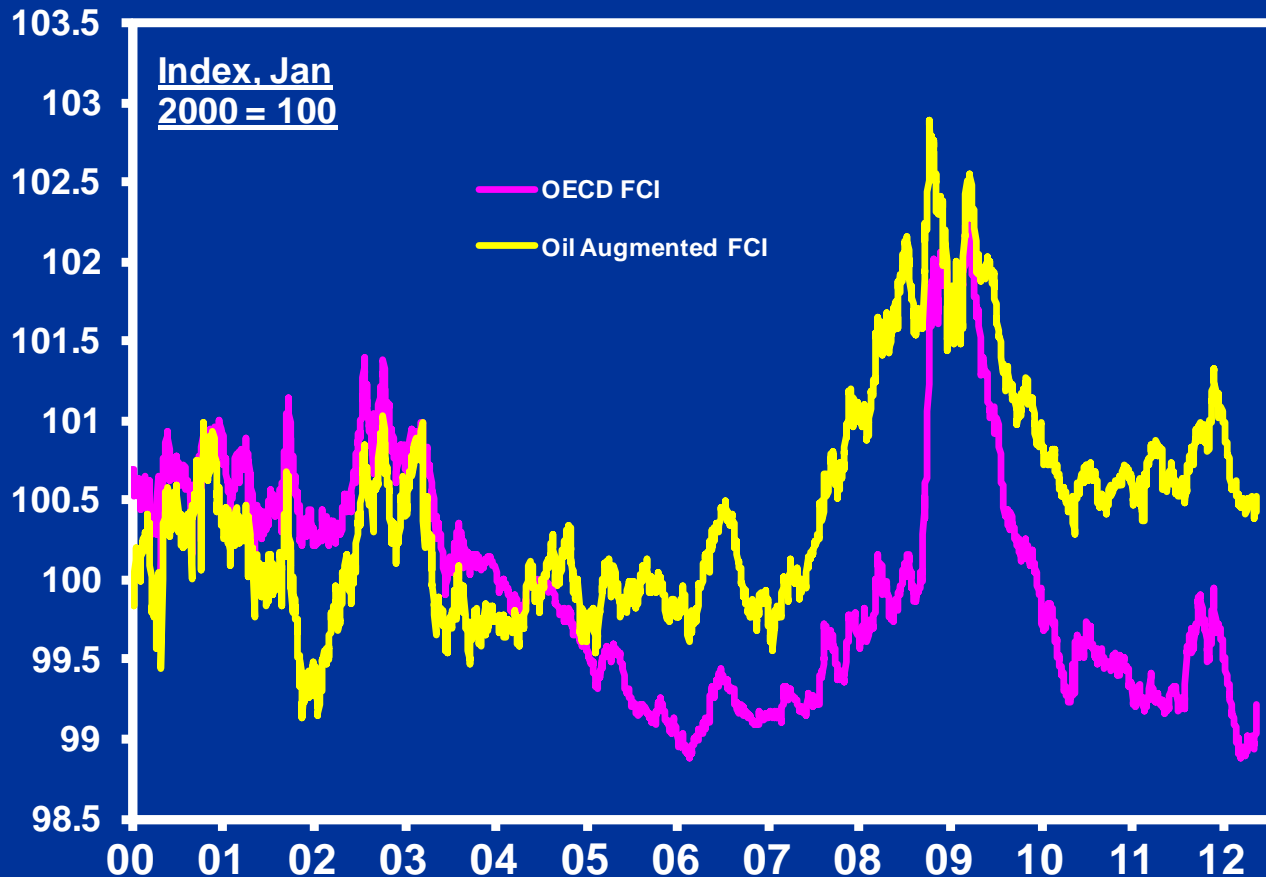


# Credit Spreads



Source: GS Global ECS Research

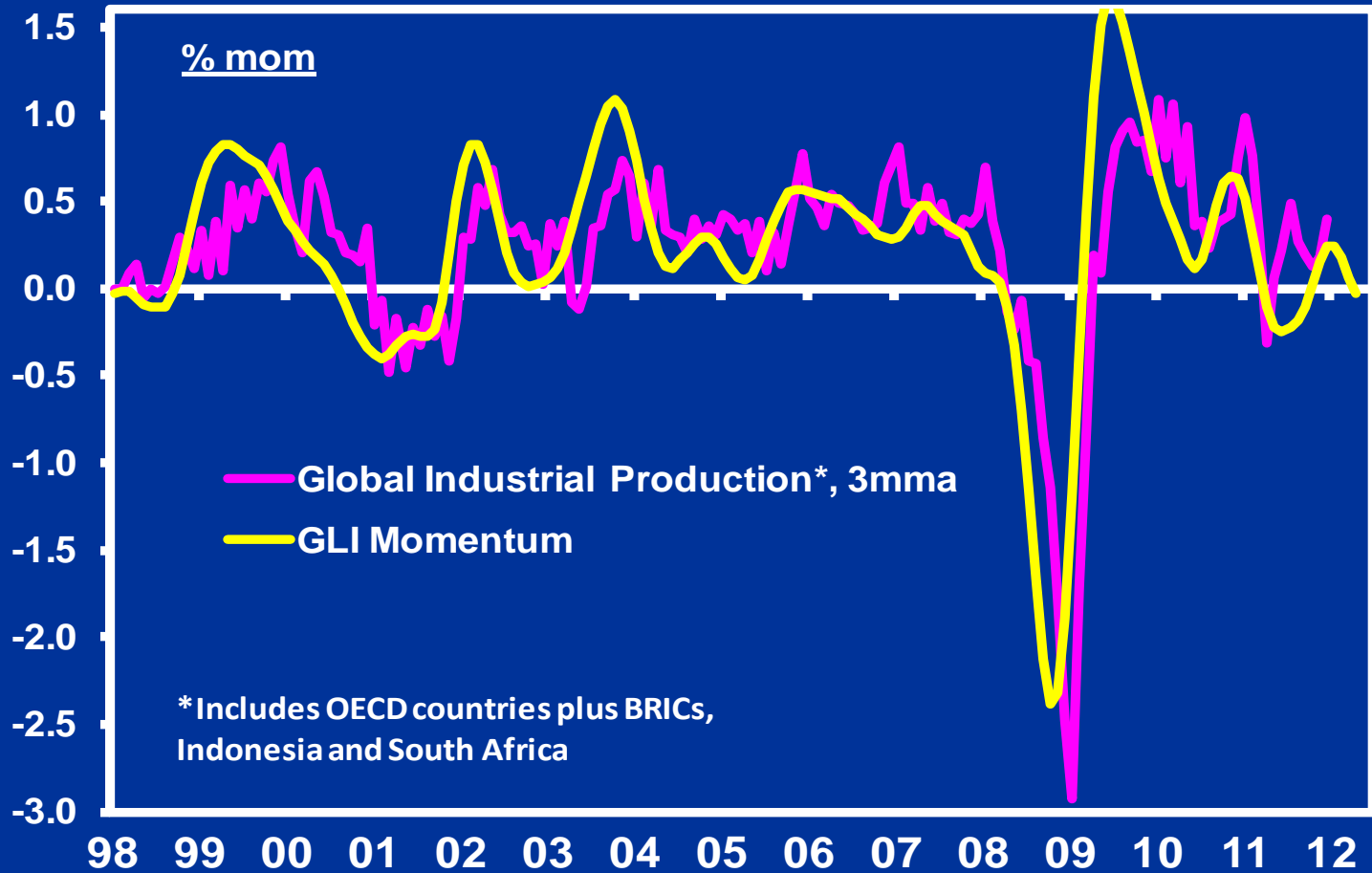
# OECD Financial Conditions



Source: GS Global ECS Research

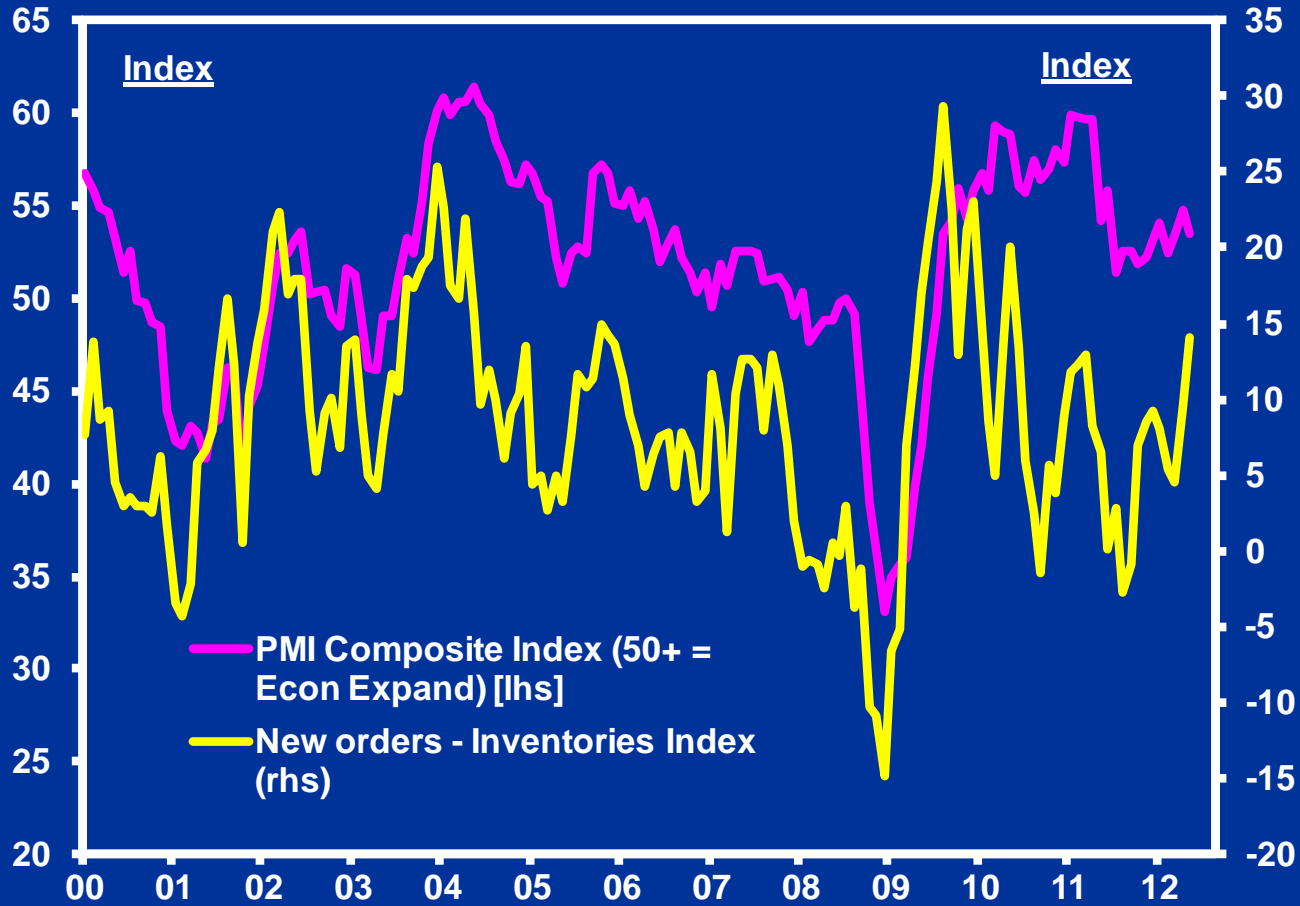
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# Momentum of the GLI



Source: GS Global ECS Research

# ISM Manufacturing Index



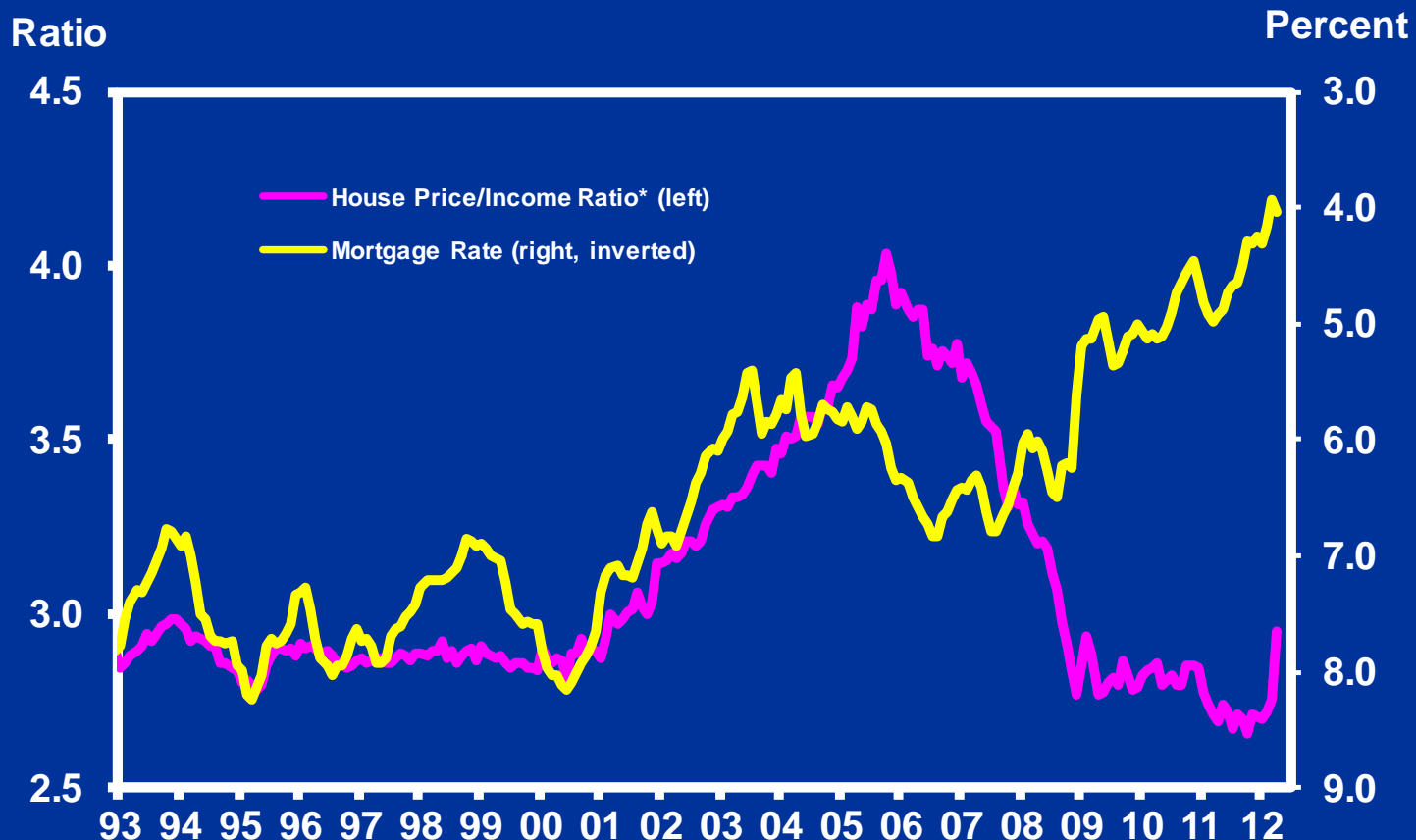
Source: GS Global ECS Research

## US Weekly Job Claims



Source: GS Global ECS Research

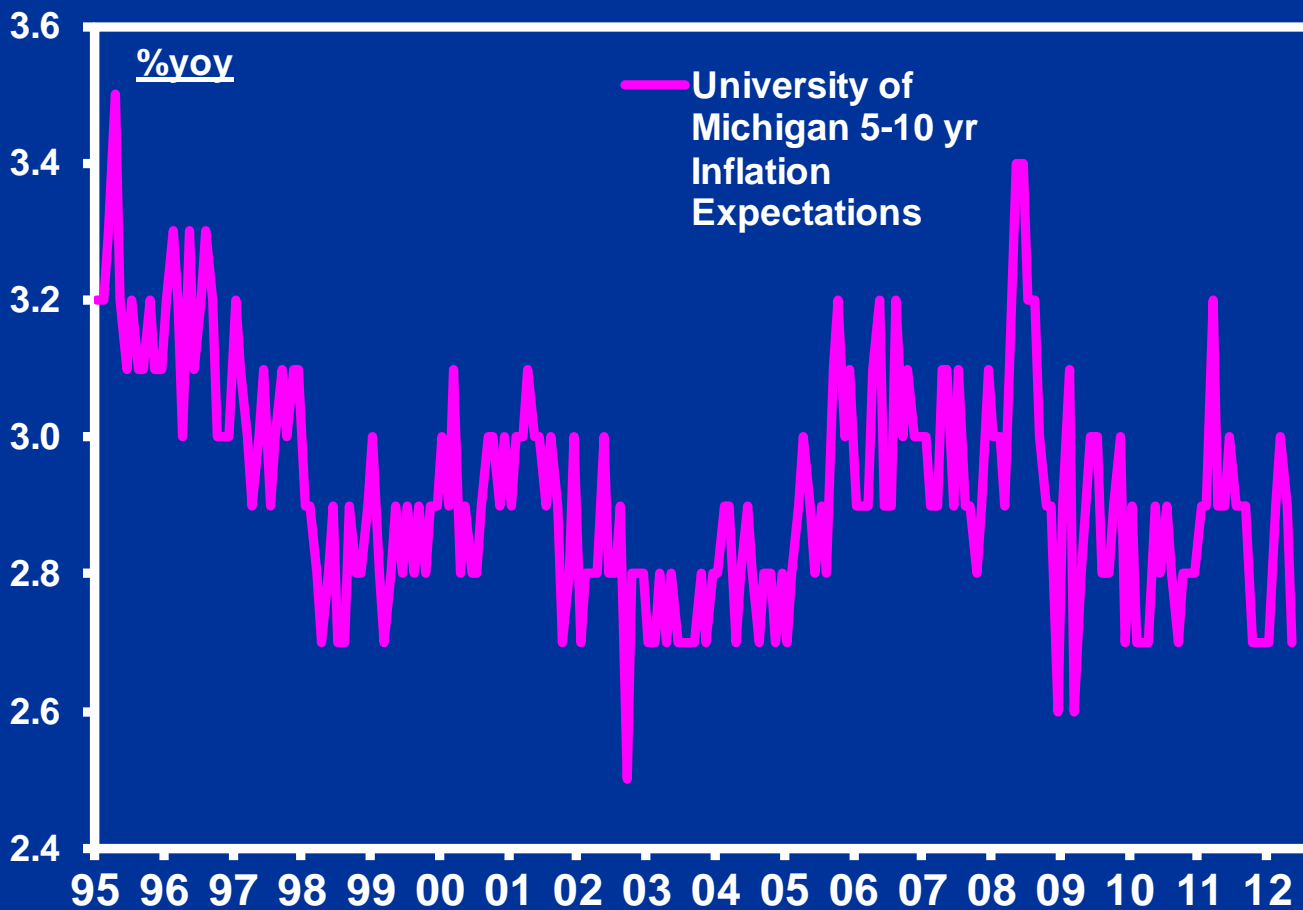
# US House Prices vs Income



\* S.a. median home price divided by median family income.

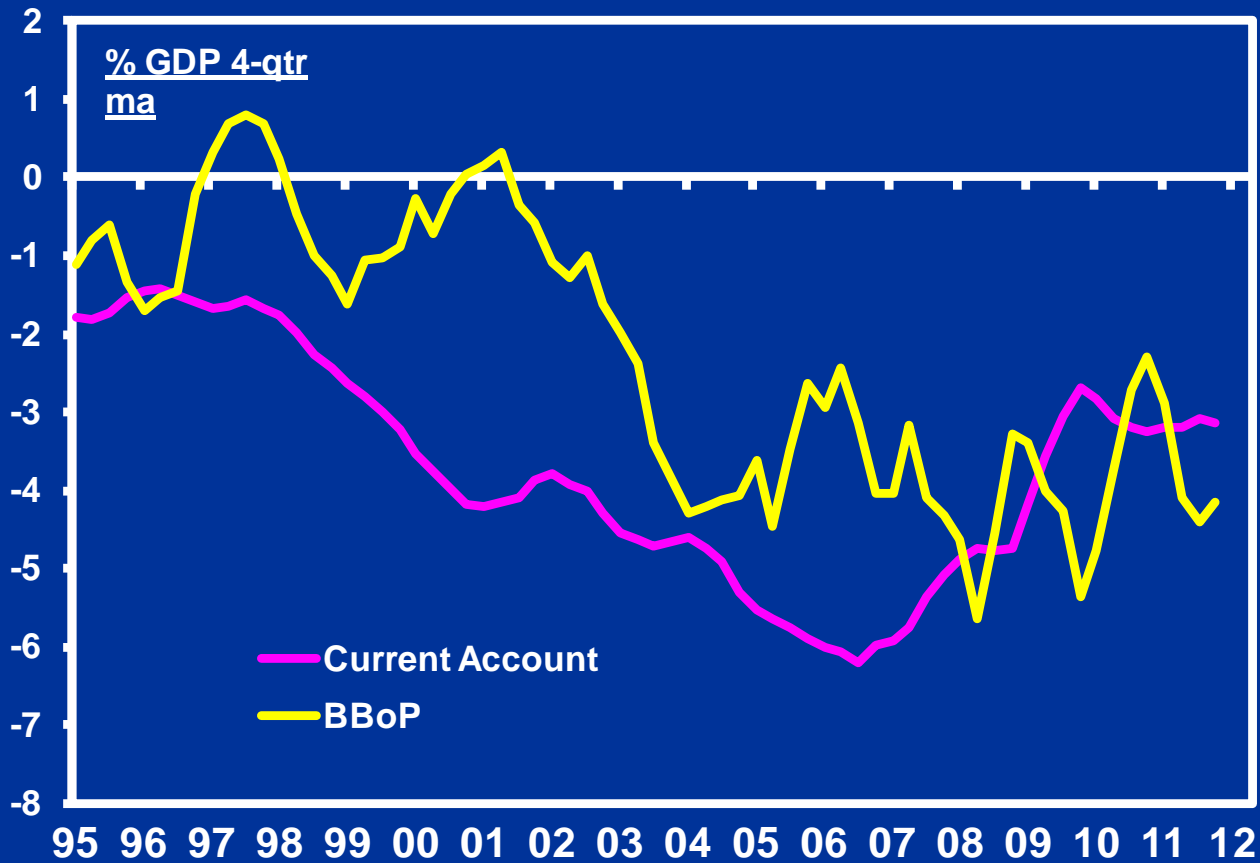
Source: Department of Commerce. FRB. NAR.

# Inflation Expectations in US



Source: GS Global ECS Research

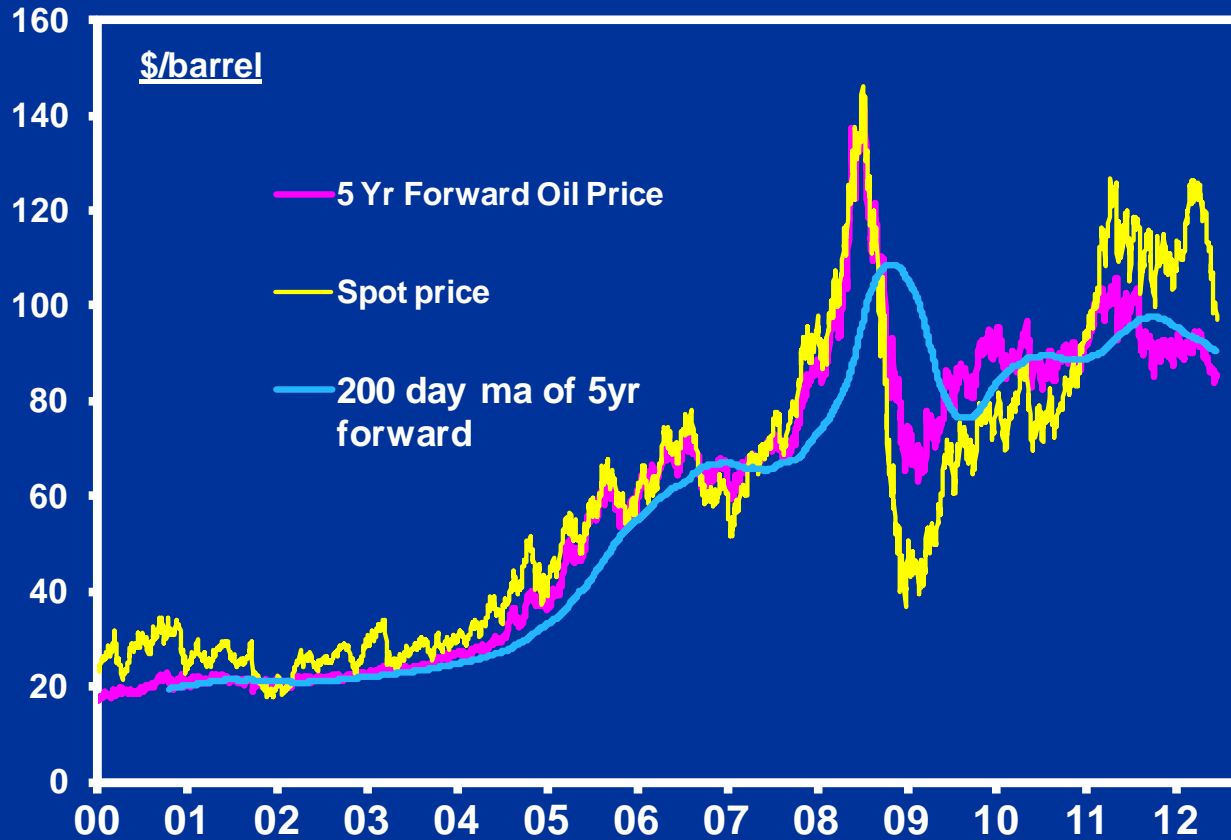
# US BBoP vs Current Account



Source: GS Global ECS Research



# Five Year Forward Oil Price



Source: GS Global ECS Research

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# Current Estimates for the Equity Risk Premium\*

	Real GDP Growth	Real Earnings Growth	+ Dividend Yield	= Expected Real Return	- Real Bond Yield	= Implied ERP	Expected Inflation	Expected Nominal Return
US	2.5	2.5	2.2	4.7	-0.6	5.4	2.0	6.7
UK	2.3	2.3	3.7	5.9	-1.2	7.1	2.0	7.9
Europe ex UK	2.0	2.0	4.2	6.2	0.9	5.3	2.0	8.2
Japan	1.5	1.5	2.6	4.1	0.6	3.5	1.0	5.1
Brazil	5.0	5.0	3.9	8.9	4.6	4.3	4.5	13.4
China	8.0	8.0	4.3	12.3	0.4	11.9	3.0	15.3
India	8.0	8.0	1.7	9.7	4.3	5.4	4.0	13.7
Russia	5.0	5.0	4.1	9.1	2.6	6.4	6.0	15.1
<b>GDP-weighted</b>								
Advanced	2.1	2.1	3.1	5.2	0.1	5.2	1.8	7.1
BRICs	7.0	7.0	3.8	10.8	2.0	8.8	3.8	14.7
World	3.5	3.5	3.3	6.8	0.6	6.2	2.4	9.2
<b>PPP-weighted</b>								
Advanced	2.2	2.2	3.0	5.2	0.0	5.2	1.9	7.1
BRICs	7.3	7.3	3.6	11.0	2.0	9.0	3.7	14.7
World	4.2	4.2	3.3	7.5	0.8	6.7	2.6	10.1

\* As of 13 June 2012

## Source: GSAM Calculations

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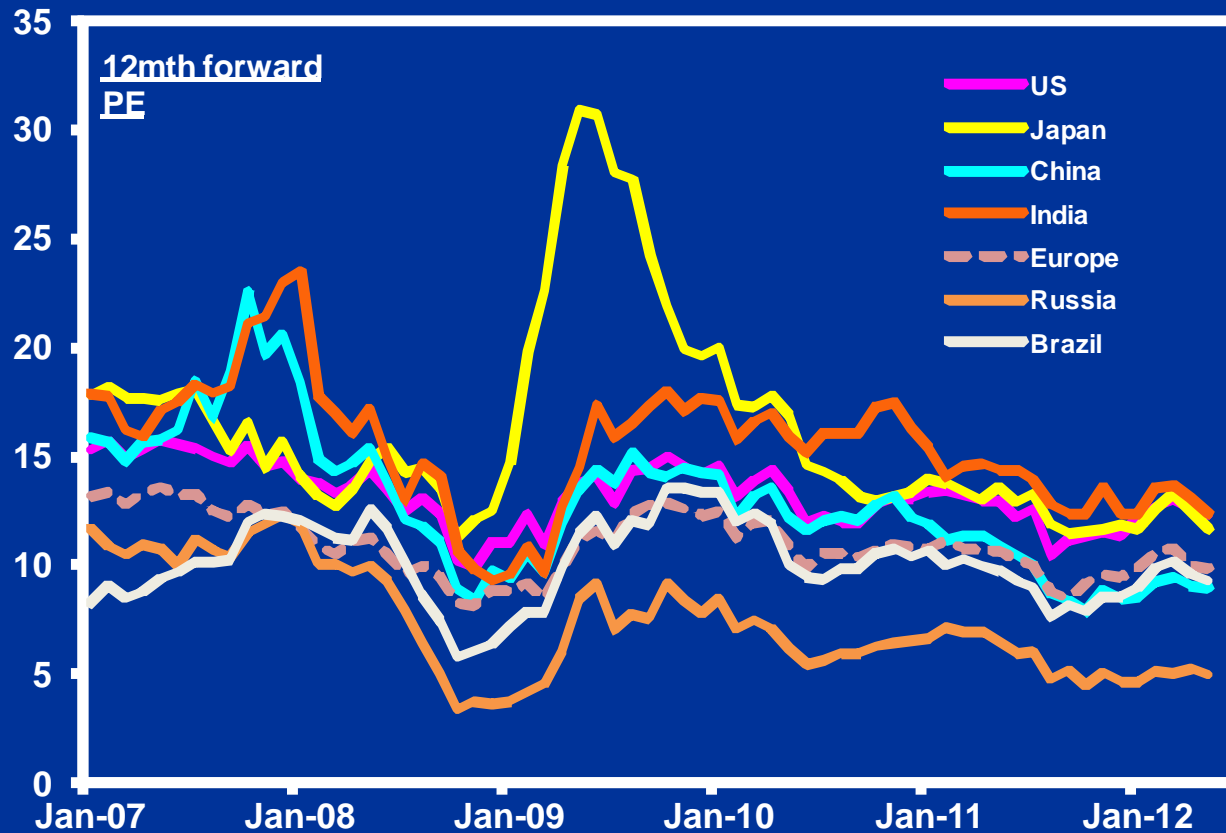
# ERP for Growth Market Economies

	Real GDP Growth	Real Earnings Growth	+ Dividend Yield	= Expected Real Return	- Real Bond Yield	= Implied ERP	Expected Inflation	Expected Nominal Return
<b>Brazil</b>	5.0	5.0	3.9	8.9	4.6	4.3	4.5	13.4
<b>China</b>	8.0	8.0	4.3	12.3	0.4	11.9	3.0	15.3
<b>India</b>	8.0	8.0	1.7	9.7	4.3	5.4	4.0	13.7
<b>Russia</b>	5.0	5.0	4.1	9.1	2.6	6.4	6.0	15.1
<b>Mexico</b>	3.0	3.0	1.8	4.8	3.0	1.8	3.0	7.8
<b>Korea</b>	4.8	4.8	1.5	6.3	0.7	5.6	3.0	9.3
<b>Indonesia</b>	5.8	5.8	2.5	8.3	1.4	6.9	5.0	13.3
<b>Turkey</b>	5.0	5.0	2.5	7.5	3.6	3.9	5.5	13.0

\* As of 13 June 2012

Source: GSAM Calculations

# Trend in Forward P/Es



Source: Datastream

# Cyclically Adjusted PE (CAPE) Ratios

	Latest CAPE	Forward PE	Average CAPE	Deviation from avg.	CAPE vs FY1 PE	CAPE History
<b>USA</b>	20.1	11.8	18.7	8%	71%	1973
<b>Indonesia</b>	18.2	11.8	21.7	-16%	54%	2001
<b>Japan</b>	17.4	10.8	46.6	-63%	61%	1975
<b>Mexico</b>	17.2	15.4	19.3	-11%	12%	2001
<b>Canada</b>	14.5	11.4	19.3	-25%	27%	1975
<b>India</b>	14.1	12.3	22.3	-37%	15%	2001
<b>Australia</b>	13.5	10.6	15.8	-15%	27%	1975
<b>China</b>	12.5	8.4	17.6	-29%	50%	2001
<b>Korea</b>	12.4	8.3	16.6	-26%	49%	2001
<b>Germany</b>	9.7	9.0	19.0	-49%	8%	1976
<b>UK</b>	9.5	9.2	13.8	-31%	3%	1975
<b>Brazil</b>	9.3	8.6	15.4	-39%	8%	2001
<b>France</b>	8.2	9.0	19.8	-59%	-9%	1975
<b>Turkey</b>	7.8	8.3	15.4	-49%	-7%	2001
<b>Russia</b>	5.8	4.3	14.3	-60%	33%	2001
<b>Italy</b>	5.2	7.0	22.3	-77%	-26%	1989
<b>Spain</b>	4.7	7.6	18.1	-74%	-38%	1985

**Source: Datastream and GSAM Calculations. As of 06 June 2012**

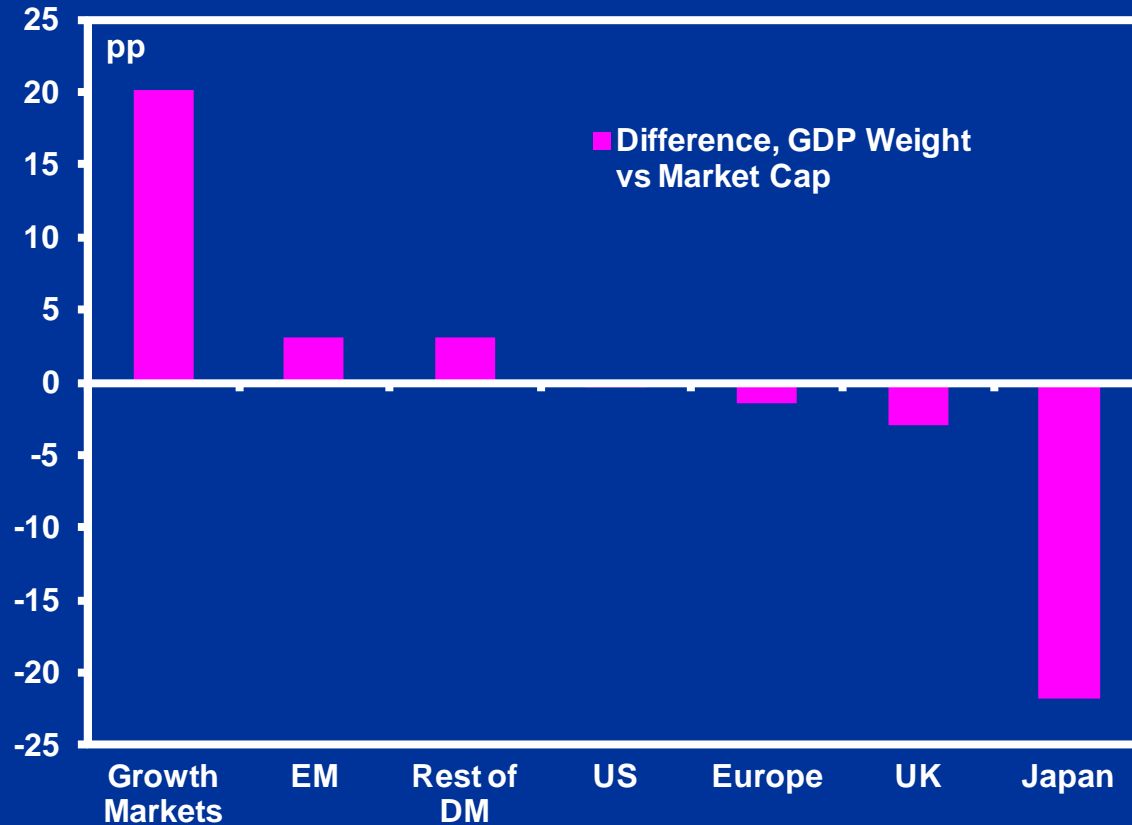
# GSAM Equity Benchmark Allocation in Growth Market World

	<b>Group GDP Share</b>	<b>Market Cap</b>	<b>GS GIVI™ Global Growth</b>
<b>China</b>	10.3%	2.6%	5.4%
<b>Brazil</b>	3.7%	2.1%	2.5%
<b>India</b>	2.7%	1.3%	1.7%
<b>Korea</b>	1.8%	2.2%	2.1%
<b>Russia</b>	2.6%	0.8%	1.9%
<b>Turkey</b>	1.3%	0.3%	0.8%
<b>Mexico</b>	1.8%	0.6%	1.2%
<b>Indonesia</b>	1.2%	0.3%	0.6%
<b>Developed Markets</b>	70.2%	87.1%	80.4%
<b>Growth Markets</b>	25.3%	10.2%	16.1%
<b>Emerging Markets</b>	4.5%	2.7%	3.5%

**Source: GSAM**

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# GDP Index Weights vs Market Cap



Source: Barclays, Haver Analytics and GSAM Calculations



Asset  
Management

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