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RESEARCH

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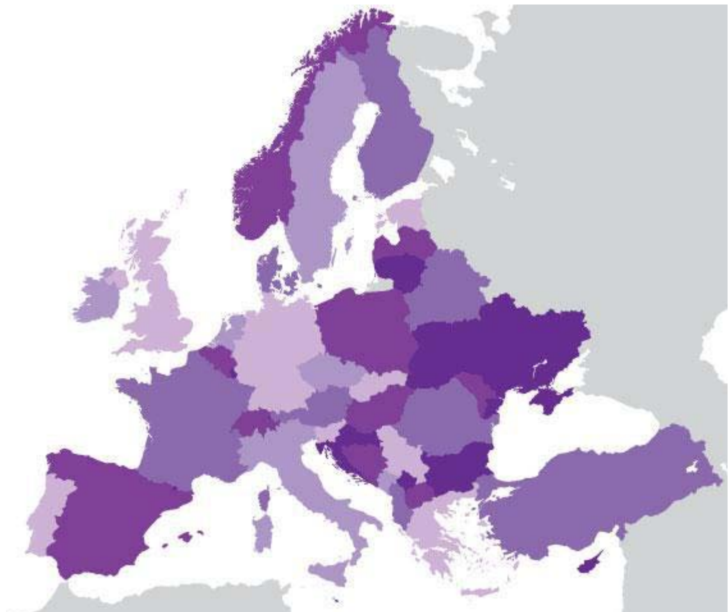
WRITTEN BY: ASHOK DHILLON

Ashok Dhillon has 40 years of front-line business experience in Canada and International markets. He has founded and led companies in construction and international power development.

Mr. Dhillon has worked and negotiated with highest levels of Governments in Canada and India. He has pursued and won mandates to develop power plants in Canada, and foreign jurisdictions such as Hungary, Iran, Pakistan and India with uncompromising ethical standards. His extensive experience in securing and negotiating multi-hundred million and billion dollar mandates in power project development, gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends.

Mr. Dhillon has been invited to speak on international business at various forums, including as an expert witness for the Standing Senate Committee, Government of Canada, on "The Rise of Russia, China and India".

European Economy, 2014 – Excerpt from Global Economy, 2014 - Looming Catastrophe Part 2



Europe:

At this time to say that Europe is healing economically, is certainly to be in the 'glass is half full' camp.

We agree that some of the economic markers are fractionally better, such as the overall GDP and the PMI numbers, after years of being in the negative territory finally breaking out to the positive side, albeit marginally. But the many weaknesses of the Euro Zone, and the risks it is still facing, are so overwhelming that it puts us solidly into the - 'glass is half empty' camp. The recent Ukraine/Russia crisis has just added to those risks, and will underscore one of Europe's weaknesses if the crisis escalates, its dependence on Russia for energy.

The European Economic Union, the 'Euro-Area' is made up of 18 different countries (*economies*) that are significantly different from each other. Apart from the obvious language and cultural differences, their socio-economic characteristics are distinctly different, thereby ***not*** producing homogeneous results in their economic activities.

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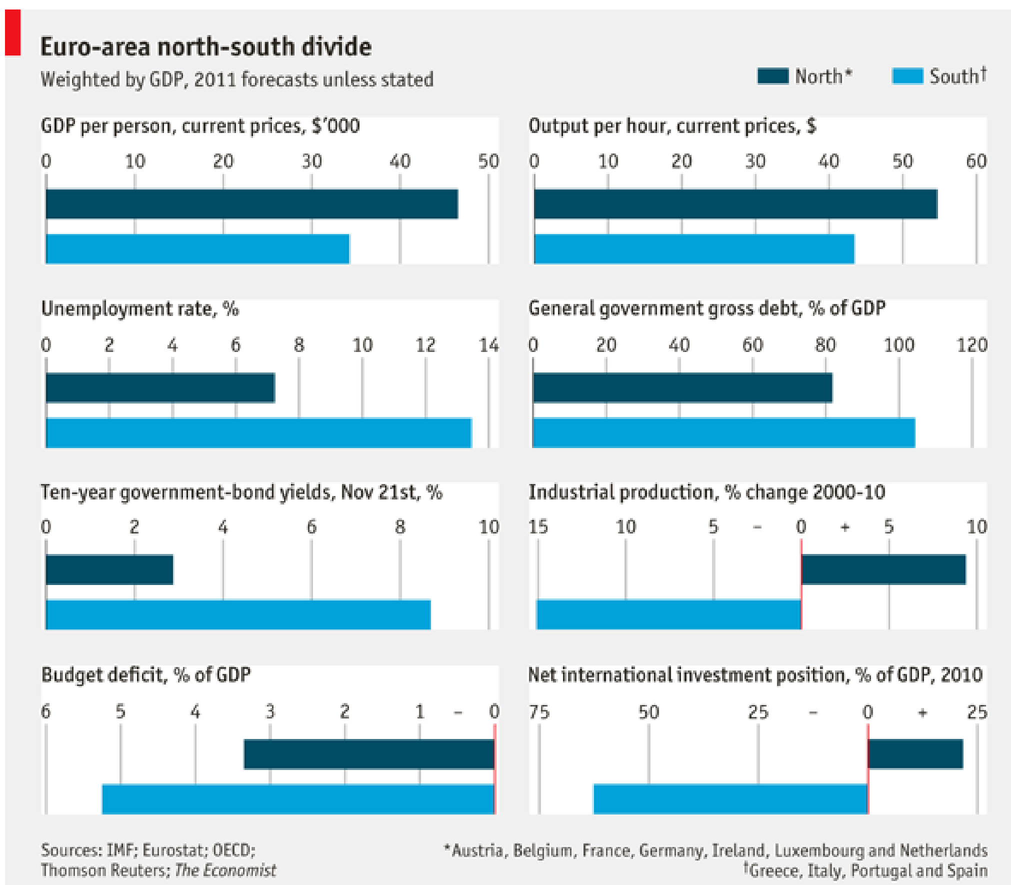
Since the crash of 2008, Germany and the Northern European economies have led the Euro-Area in relative economic stability and growth, while the 'Southern' economies particularly Greece, Italy, Spain, Portugal and Cyprus have flirted with economic collapse. And, though these economies are a bit more stable now, due to the Euro Area member government's determination to stay together, most of them are still struggling to gain financial and economic traction and stability.

In spite of their differences, because these economies are now bound together with one currency, the macro-economic guidance of these economies must be common to all, making for an enormously difficult and unwieldy structure to stabilize and direct. Greater integration of their financial, economic and political institutions will need to take place (*greater financial and economic integration is being contemplated and worked on, particularly in banking*) before a more efficient macro-economy will emerge, and an effective steering mechanism can be designed to guide the disparate 18 economies more effectively.

In the meantime, while the Northern European economies show stability and growth, the Southern European economies continue to struggle under high unemployment, anemic growth momentum, deleveraging and threat of deflation.



Deflation is still a strong possibility, and it would not take much of a political, financial or an economic shock, to push the Euro Area back into a full blown recession.

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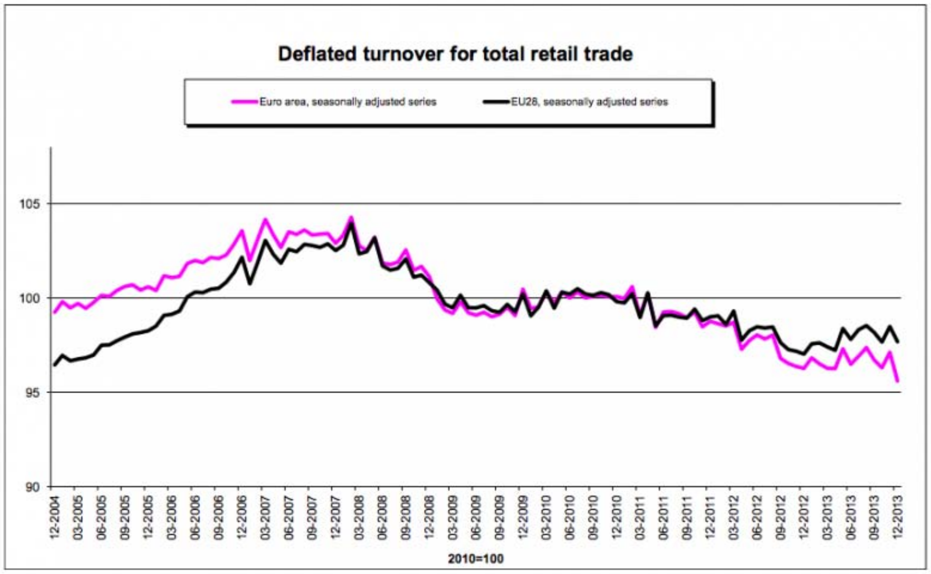
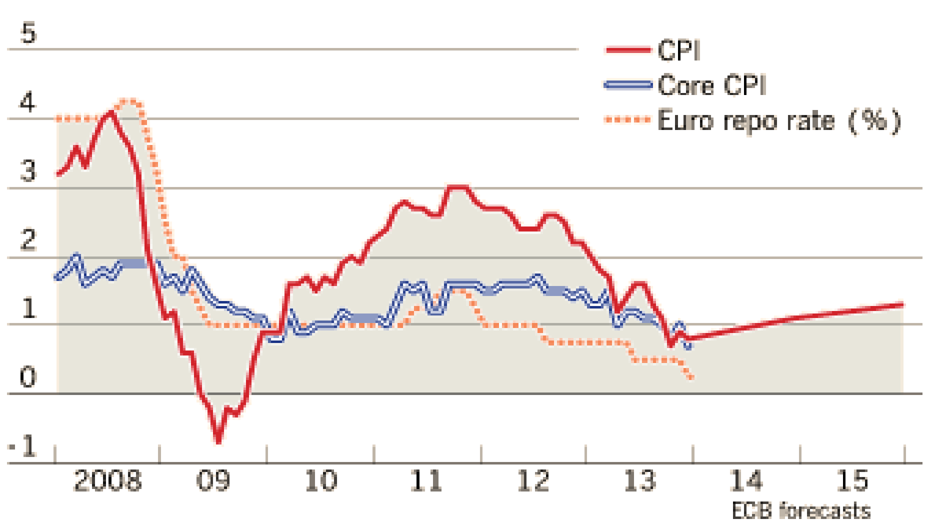
The two Charts below show that across the board demand is weak and prices under pressure. The deflationary pressures are still strong and reflecting the overall weakness of the Euro Area and the external global markets.



Eurozone inflation and interest rates
Annual % change in CPI



Sources: Thomson Reuters Datastream; ECB

As a whole, Europe is still facing frightening unemployment realities. As per the following Chart, officially unemployment is stated at 12.2%, while youth unemployment ranges from to 25% to 30% in certain economies. But in certain pockets of some countries like Spain and Greece, youth unemployment is at 50% to 55%, and still trending up. Such punishing numbers underscore the difficulties facing Europe and its populations, and its precarious retreat from the brink of disintegration last year. The climb back may be arduous but possible, except for the scepter of looming external shocks from a expected crash in the financial markets in the U.S., or

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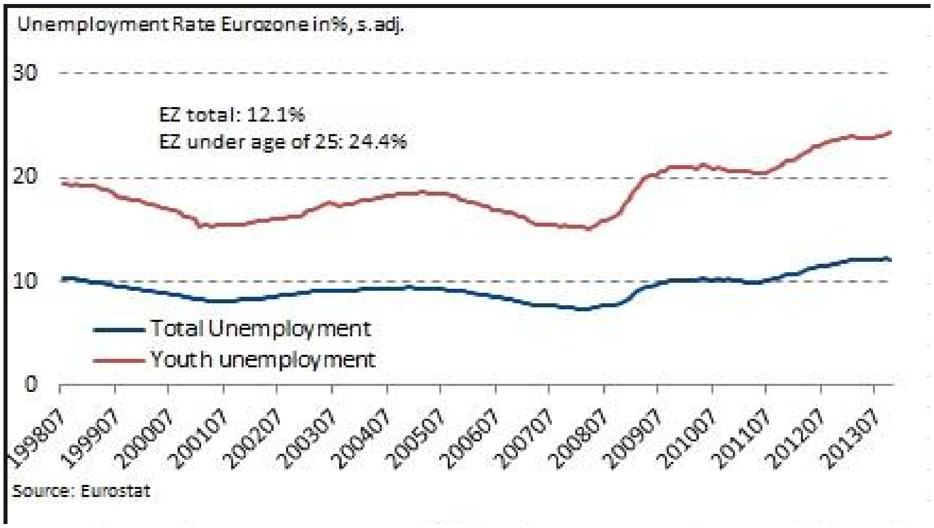
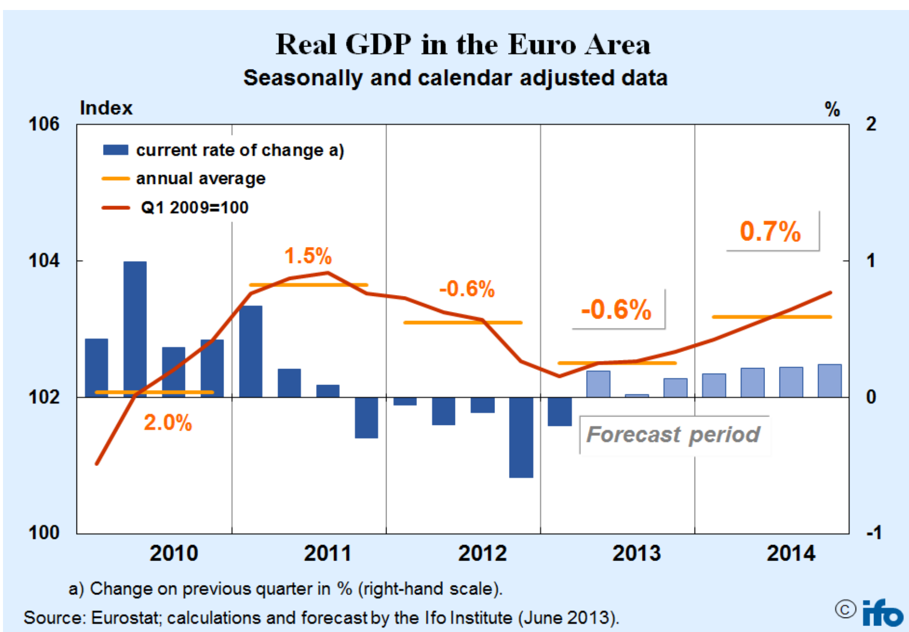
the collapse in the real estate and banking bubbles of China, or the collapse of 'Abenomics' in Japan, or a number of other potential economic or political triggers.

Additionally, to add to the threats facing Europe and the global economies now, we have the crisis in Ukraine. This rather grim overall picture belies the 'glass is half full' optimism being projected and accepted today.



The GDP (*the economic growth rate*) has finally moved into positive territory (*the Chart below*) and is estimated to be at approximately 0.7% in early 2014. As we said earlier, there are improvements in some of the statistical numbers but the Euro Area is far from recovered and overall barely managing above zero growth rates. And this frail 'recovery' is the result of extraordinary and combined efforts of all 18 governments, their Central Banks, the Euro Group (*like a master steering committee*) and the powerful European Central Bank, that has committed to "whatever it takes".



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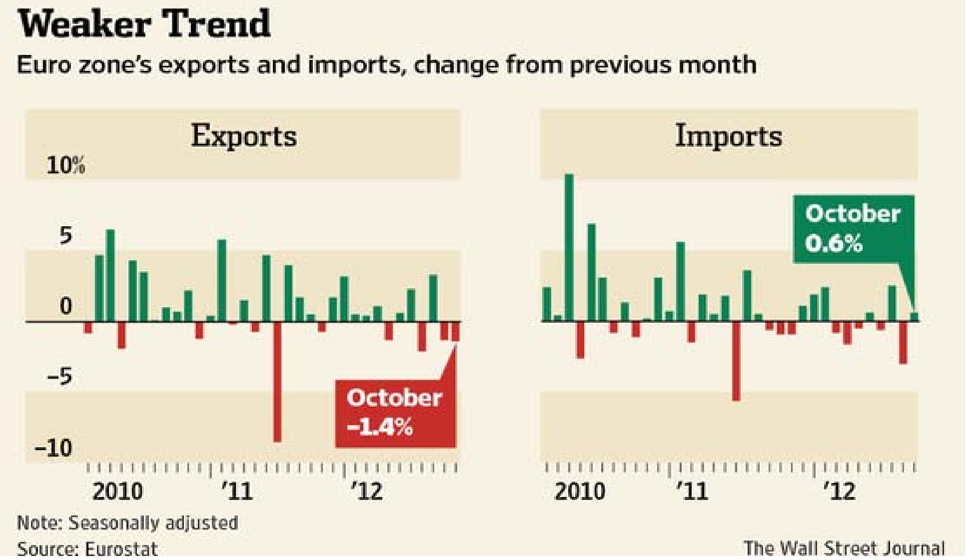
Looking at the previous Chart we must Keep in mind that the European Commission and the IMF had to consistently ***re-adjust downwards,*** their optimistic forecasts of the last couple of years, we feel, in light of the risks still inherent in its own 18 economies, and the considerable risks posed by the overleveraged global economies, especially America, China and Japan, the gains in the Euro Area at this time are too precarious to be relied on, and the positive trend too prone to reversals.

While GDP and PMI numbers are marginally positive, exports are weak and demand lack luster. The stronger trending currency the 'Euro' is having an adverse impact as exports decline due to the higher cost to external buyers, and imports climb only marginally as their costs go down for the Europeans. But Europe is facing weak internal markets, and except for the U.S. perhaps, a weakening external global demand with China, India, Russia and South America still slowing materially.



Conversely, the extended and persistent weakness of Europe, in our view, not about to change materially any time soon, will continue to have a negative economic impact on all those economies (*particularly China*) that were profiting by exporting goods and services to one of the World's biggest and most developed markets, the Euro Area. But now Europe has become the case-study of a complicated political and economic experiment that still needs a lot of work, compromise and greater integration to make it even moderately and sustainably workable. In the meantime, its economic weakness will continue to negatively affect the emerging and export dependent economies.

It is as we had said in our earlier Reports; the global economy is locked in a downward spiral of falling demand, internal and external, that just Quantitative Easing will not be able to arrest, regardless of the QEs size and duration. There has to be material realignment in the makeup of major economies as external demand languishes, as most developed countries continue to struggle with anemic 'recovery', and the large emerging economies try to cope with overcapacity due to the lack of robust demand from developed countries, and the resultant declining growth rates.