

Views expressed in GETAnalysis reports and commentaries are strictly for information only. All images and content contained herein are subject to copyright; All rights reserved.

The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON



Ashok Dhillon has 40 years of front-line business experience in Canada and International markets.

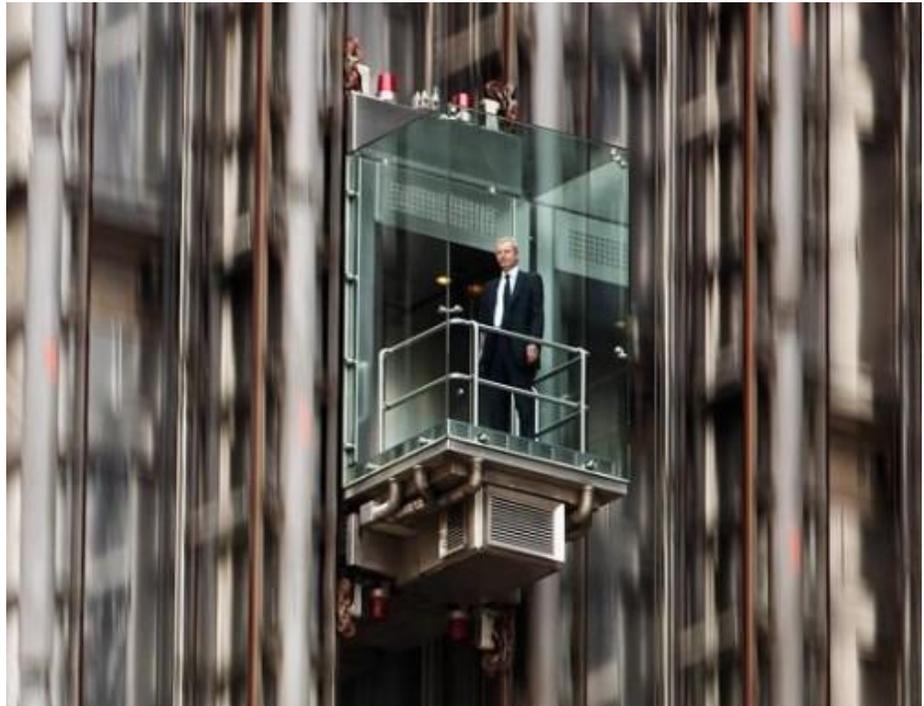
Mr. Dhillon's experience includes start-ups, venture capital, seed funding, and heading companies in construction and international power development. His extensive experience gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends. He 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".

In Part 1 and 2, we primarily addressed China and the United States, and briefly referred to the problems of Greece and the Eurozone (*as their problems have been well highlighted in the media recently*). In this Report we want to address Japan, Russia, Brazil, Canada and Australia.

Collectively, we believe, these economies will put an additional drag on the Global economies.

With Euro Zone's ongoing weaknesses, and now with America softening appreciably, these economies represent the majority of the rest of the developed World. The relevance of highlighting the drag is to point to the improbability of the escalating global economic decline reversing itself, in spite of the Federal Reserve, the other major Central Banks, most other experts and commentators, still insisting that it will.

In fact, as we attempt to point out in this our mid-year Economic Report, the factual reality, that the vast bulk of the developed World is continuing to contract on a long term basis, and now with the 2nd largest economy (*China*) in an increasingly visible free fall, the contracting economies in this Report make up the bulk of the global elevator heading to the basement.



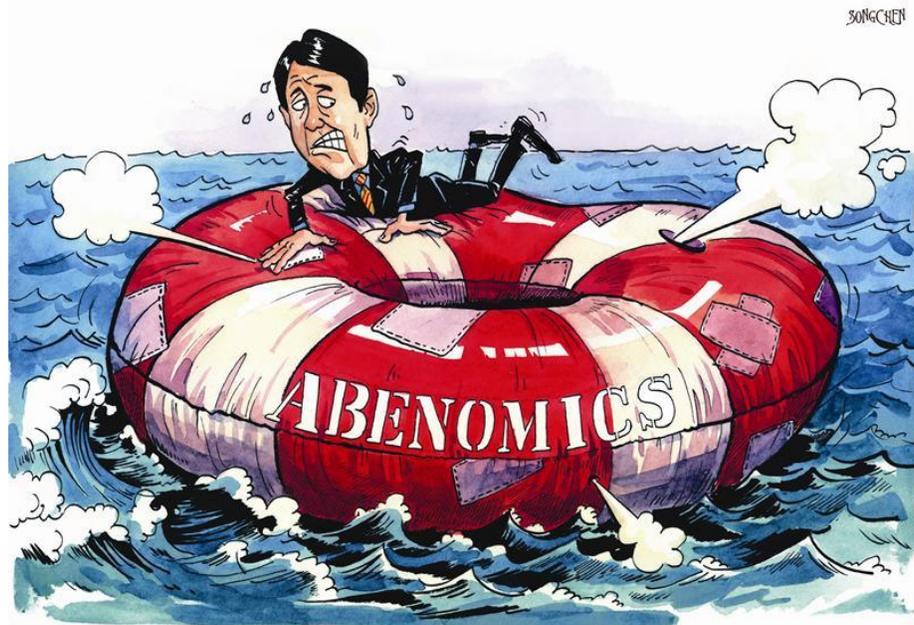
Apart from Japan, which is not only the third largest global economy but a technologically advanced one, and yet in a sense the most in trouble, the other three are significantly resource based and are obviously being affected by the ongoing crash in commodity prices (*in itself the most significant proof*

The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON

of the seriousness of the escalating global economic crisis).

Japan, economically the third largest, and one of the most advanced modern economies in the World, paradoxically has been plagued with age old internal structural problems that are so culturally entrenched that successive governments, for the last 25 years, have failed to resolve them to any significant degree. That is because Japan's entrenched economic problems are rooted more in its ancient cultural traditions of hierarchical positioning, political and business cronyism, endemic corruption, and its demographic reality (*a fast aging population*) than any other global economic reality. And that is why, in spite of the extreme measures it took in character with its current samurai bred leadership that lives by the bushido code of 'victory or death!', 'Abenomics' is still failing.



The core strategy of Prime Minister Shinzo Abe, since coming to power in September of 2012, was to determinedly unleash the most unprecedented economic stimulus in global history. It truly makes the recent past years of effort of the Federal Reserve, European Central Bank and the other major Central Banks look downright restrained in comparison.

In the beginning everybody appauled PM Abe's grit, determination and deciveness, inside and outside of Japan. The Japanese people, sick and tired of being stuck in economic doldrums for over two decades while the rest of the World raced ahead, especially China and the United States, simply fell in love with their determined and tough talking Prime Minister as he swore to bust Japan out of its economic malaise. And the rest of the World while anxious about the results of such unrestrained liquidity materially devaluing the Yen, which would lead to global currency wars, still hoped to have Japan back as the third largest economy, becoming a positive contributor to global growth which was still struggling to recover from the 2008 crash.

The Global
Economies –
The Escalating
Train Wreck
Part 3

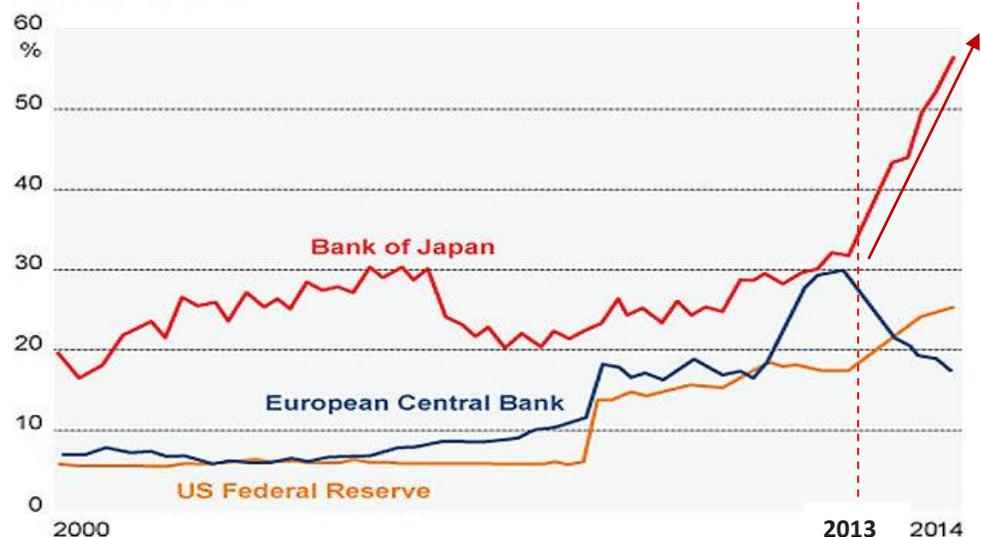
WRITTEN BY: ASHOK DHILLON

For his part PM Shinzo Abe and his hand picked Bank of Japan Governor, Haruhiko Kuroda, were true to their word and intentions.



The Bank of Japan has spared no effort to break Japan out of its slump as its asset purchase efforts show in the Chart below (source: *Telegraph.uk.com*). After taking office in March, 2013, Governor Kuroda has given a new meaning to the words 'monetary stimulus', as represented below by the steep trajectory of the Bank of Japan's asset purchase program.

Central bank assets
% of nominal GDP



Alas apart from an initial promising lurch, it was not to be. In spite of the most determined and unprecedented effort on the part of the Japanese Government and the Bank of Japan, its economy is again contracting (See next *Chart*).

While a few Quarters do not a longterm trend make, unfortunately a number of other key indicators are also turning negative at the same time. One of the primary targets for the Bank of Japan was the core inflation rate of reaching 2%. As the second *Chart* shows, core inflation has fallen off the cliff lately.

The Global
Economies –
The Escalating
Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

And there is more bad news in the other economic indicators, again please see the following Charts.

Japan's GDP has contracted for the past months inspite of every effort of the Bank of Japan. This does not bode well for the Prime Minister and his rescue strategy Abenomics.



Again, after a spleen bursting effort to raise the target inflation rate to 2%, the BOJ has failed as CPI has collapsed along with the global energy and raw material prices.

Japan's Deflationary Slump

Change in Japan's consumer price index excluding fresh food and adjusted for sales tax increase



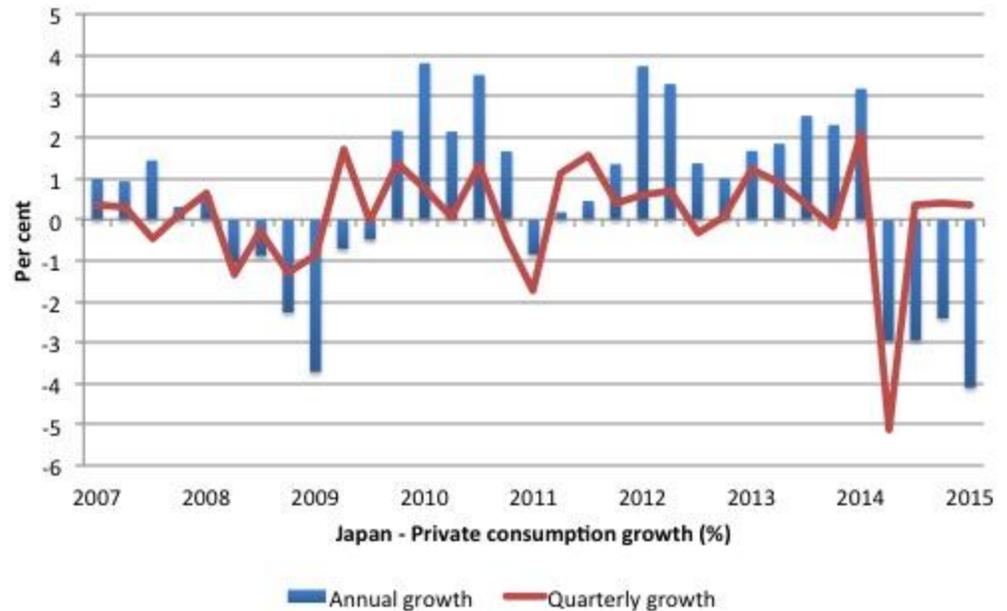
Source: Japan's Ministry of Internal Affairs and Communications

All that insane amount of economic stimulus is not showing up in consumer spending, as the public after an initial burst of euphoria, realized the odds against 'Abenomics' succeeding and have seriously curtailed their spending. Along with the internal consumption, the Prime Minister's approval rating is also dropping. Last month it was reported; the Prime Minister's approval rating fell to an all time low of 37% since his assuming office in 2012, while his *disapproval* rating climbed to over 46%. The Japanese public, like the public everywhere where massive monetary stimulus has been undertaken in

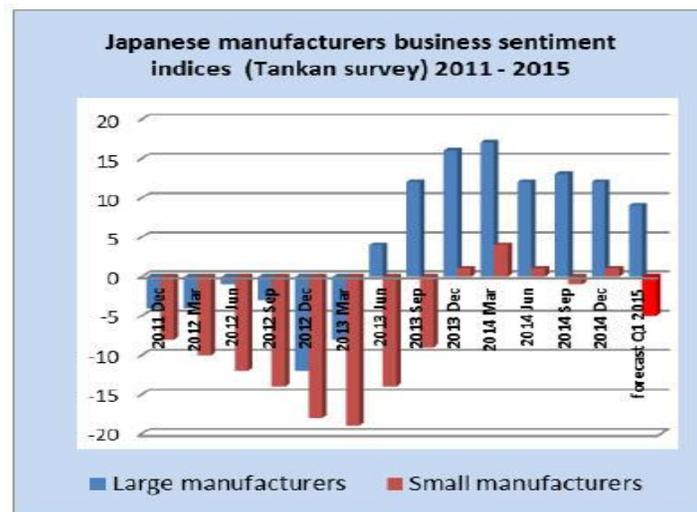
The Global Economies –
The Escalating Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

the past 6-7 years, are not feeling the love of that generosity, as the Trillions of dollars made available from the top, stay and circulate at the top, having little trickle down effort. That leaves the public to struggle and watch their spending.



Along with the public, business sentiment is also turning negative as economic reality sets in.

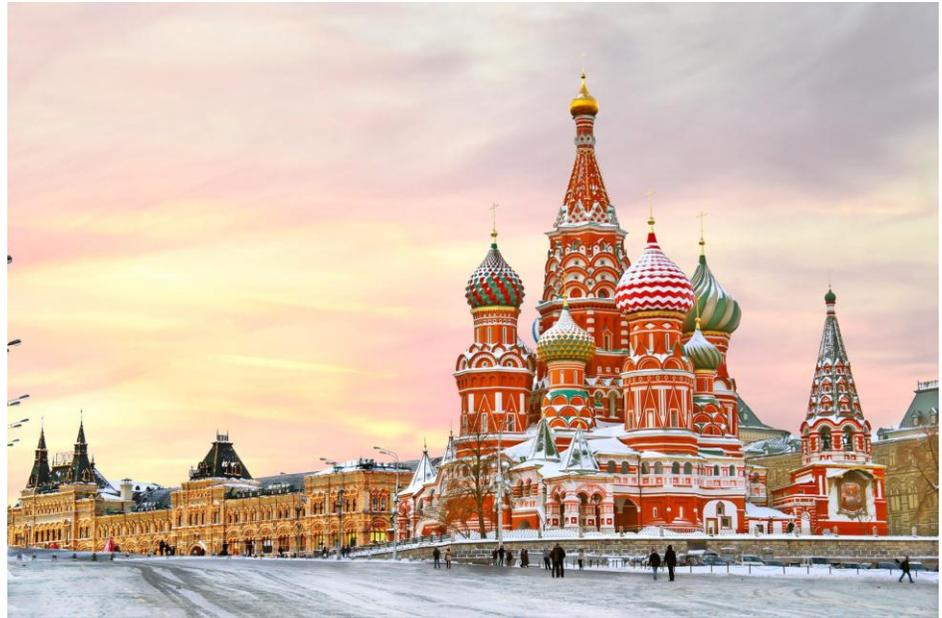


Data source: Cabinet Office, Japan

After setting new precedents on monetary easing, so much so, that it would elicit a name all its own, 'Abenomics', the results are not only, not encouraging, but can be interpreted as downright scary. The reason being that when such profligate spending is unleashed, and all it accomplishes is a return to a contracting economy, dis-inflation, declining consumption, and negative public and business sentiment, then the only possible and final outcome can be: Japan self destructing. As Japan continues to debase itself, in an effort to lift itself out of the sinking sand its in, so are its competitors forced to devalue. It is a race to the bottom, that so far nobody is winning.

The Global
Economies –
The Escalating
Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON



Red Square in Moscow, Russia

RUSSIA: Vladimir Putin came to power in 2000 when he became President. Since then he has been 'the power' in Russia. In fact, he has consolidated power to himself to a point that he is the defacto modern dictator of Russia. In that role he has controlled all policy in Russia over the past 14 plus years. Therefore it would be fair to say that the current Russia reflects Vladimir Putin's personal vision of how Russia should be.



Initially it was thought that Russia would flourish under his disciplined iron hand, in contrast to his predecessor, the seemingly ill-disciplined, unstable, drunken Boris Yeltsin. But when one looks at Russia's economic performance during the Yelstin years, and keeping in mind the chaos that went before it, during his term the GDP growth was spectacular, albeit it was starting from a low base (see 2nd Chart on next page).

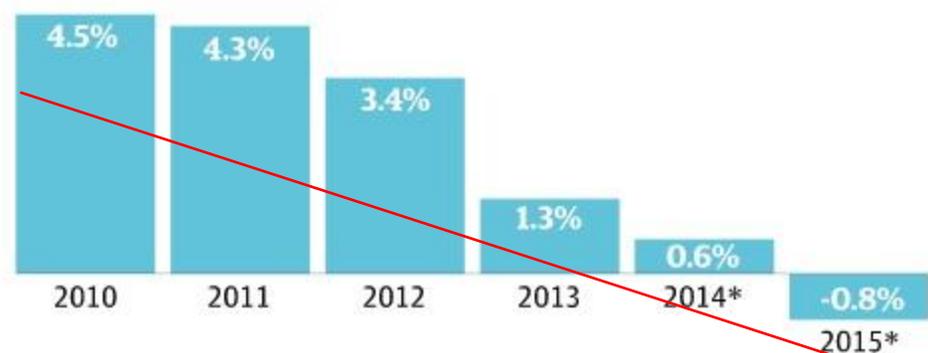
The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON

Putin on the other hand took over in 2000 at an economic high point. Shortly after that the 'dot com crash' (*in the United States*), had a short but powerful negative impact on the major economies and it showed in Russia (See *Chart on next page*). But after that even though the economy recovered, it never quite got to its previous high, but stayed in the positive territory till the down draft of the 2008 crash caught it and sent it, as it did the rest of the World, into a nose dive. Since then the Russian economy did recover but stayed weaker than before. In the last 5 years the Russian economy has steadily declined. As the following Chart shows, Russia's economic growth has been contracting steadily and the Country is now in a deepening recession.

Russian GDP growth

Percent growth



*2014 and 2015 figures are forecasts from the Russian economy ministry

GUARDIAN GRAPHIC

SOURCE: OECD/RUSSIAN ECONOMY MINISTRY

To be fair to President Putin, during his almost 15 years in power (*as Prime Minister he was still the man in charge*) he has had to contend with the aftermath of the 2008 crash (*an external event*) and the more recent precipitous drop in oil prices (*Russia's primary export commodity*) which has given Russia's economy a decisive push downward and currently put it solidly into negative growth territory. Having said that, President Putin hasn't seemed to be too concerned to steer or position the Russian economy for future growth, by restructuring the economy from a basically resource based one, to a more modern diversified goods and services economy. And during the many years of his being in control he has focused more in trying to grow Russia's former international geo-political influence, than show much interest in growing, diversifying or making more equitable its economy.

Putin's efforts in recapturing Russia's former glory as an international heavy weight has had Russia once again become the aggressor to its former USSR satellite countries, and landed him at odds with the leaders of the Western powers. The confrontation over Ukraine brought heavy economic sanctions against Russia by the West, that have also seriously hurt Russia's economy.

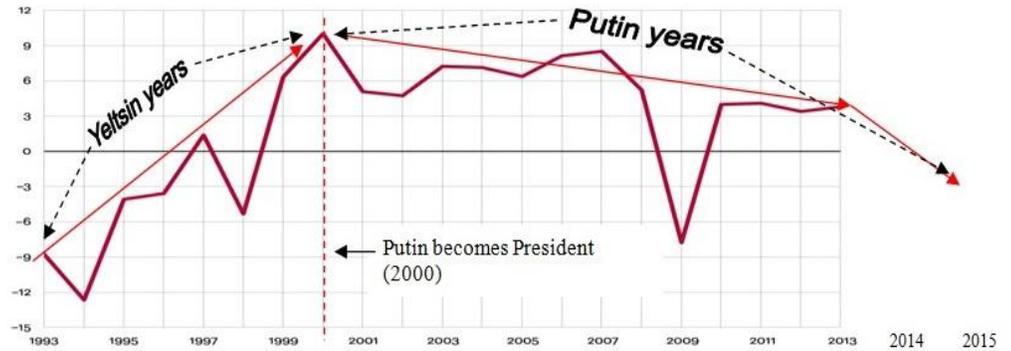
Today, the Russian economy is in deep trouble and unless the price of oil dramatically reverses itself, which is not looking likely for the near future, and

The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON

as Russia is unrepentant for the annexation of Crimea and its incursions into Ukraine, the economic sanctions aren't likely to come off either. The following Charts show the serious nature of Russia's rapidly deteriorating economic condition.

Russia GDP growth, 1993-2013 (percent, constant prices)

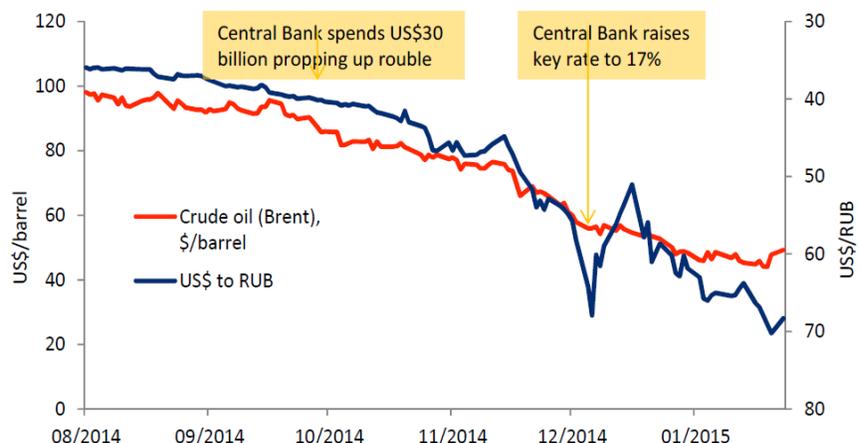


Sources: IMF World Economic Outlook Database (1980-2009), IMF World Economic Outlook, January 2012 (2012-13); A.T. Kearney projections

Over the past years, with the double whammy of the sanctions imposed by the Western countries, and the dramatic drop in the global oil prices, the Russia's currency, the Rouble, went into a freefall. Russia's Central Bank was forced to raise its key lending interest rate dramatically (at one point to 17%; real nose bleed territory in a zero interest rate environment in the West) and since then, has had to regularly intervene in the currency markets to shore up the Rouble.

In the current economic environment, there is no relief in sight for the Rouble, or Russia's beleaguered Central Bank. The external economic and geo-political down drafts are going to push every thing in the Country even lower. Internally, as long as international oil prices keep at its current levels or decline further, which seems probable as the global economic continues to deteriorate and oil demand weakens further, reducing Russia's oil export cash flows, and the Western sanctions remain in place, Russian economy will continue to weaken significantly.

Figure 9: the rouble and oil prices



Data: US Energy Information Administration/Exchange-Rates.org.

The Global Economies –
The Escalating Train Wreck
Part 3

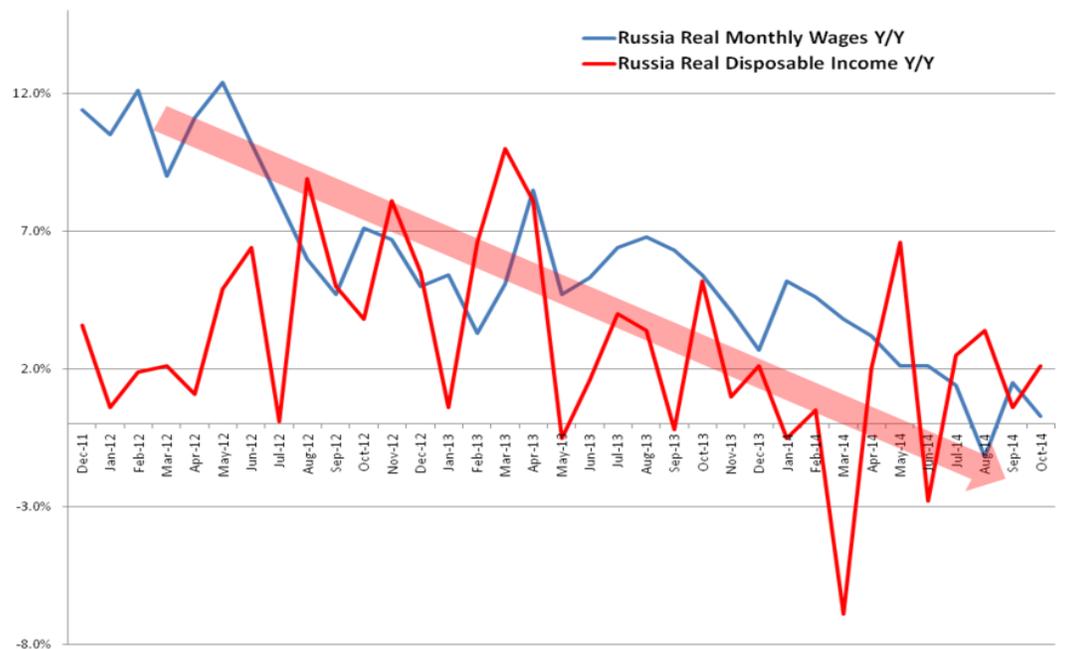
WRITTEN BY: ASHOK DHILLON

The Central Bank's interventions in support of its economy, the currency markets, and the falling trade with the West, is significantly reducing Russia's foreign exchange reserves.



SOURCE: WWW.TRADINGECONOMICS.COM | CENTRAL BANK OF RUSSIA

With the economy in recession, currency declining in value, financial and trade sanctions in place, inflation is rising dramatically, bringing additional pressure and hardship to the Russian people.



DATA SOURCE: BLOOMBERG

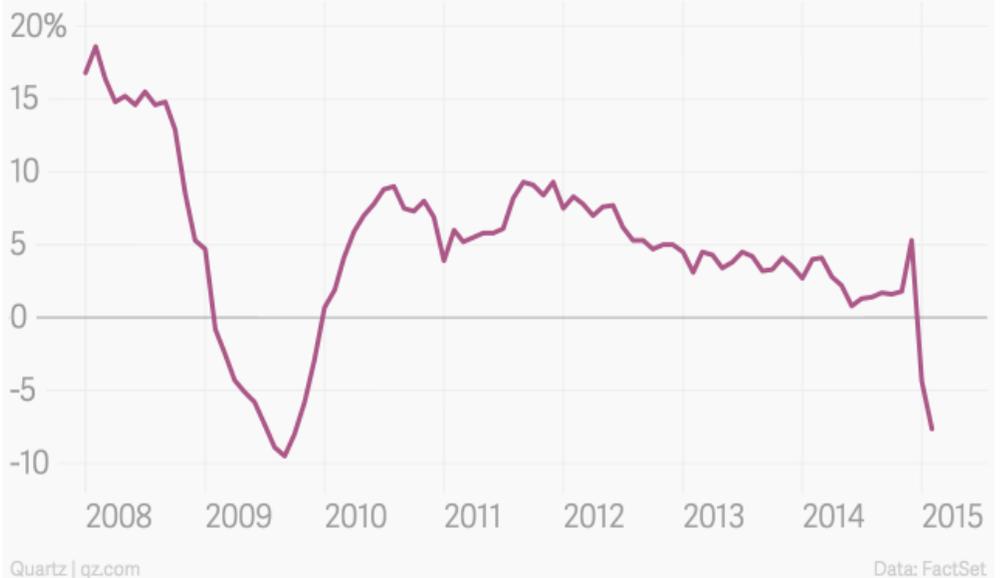
©HEDGEYE RISK MANAGEMENT

The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON

With practically all cylinders of the economy mis-firing, it isn't much of a surprise that the long suffering and stoic Russian public haven't a lot to spend. Like the economy, and because of it, retail sales have had the bottom fall out this year.

Russian retail sales, annual growth



In a deliciously ironic coincidence, while we were writing this Report, President Putin, in one of his planned publicity stunts, decided to explore a ship wreck in the Black Sea in a submersible while visiting the annexed territory of Crimea. The picture below, perfectly captures for us Russia's current sinking condition.



(Source: the Telegraph)

The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON

It is quite obvious now that President Putin's expertise and passion lay more in trying to restore Russia to a semblance of its former geo-political glory than in creating a new well balanced modern economy out of the archaic, corrupt, dysfunctional old one. His past KGB training, and career, certainly was more suited to external geo-political intrigues and strategies, and internal demagoguery, rather than the comparatively mundane task of economic planning and tinkering.

We now know that while at the height of its legitimate super power status externally, Russia was a growing economic disaster internally. To an appreciable degree Putin has succeeded in recreating a smaller version of the old Russia, as it is starting to resemble it more and more.

The Russia of today, is an increasingly autocratic State, where political power is consolidated in the hands of the top few, opposition and desertion is silenced by decree, force, and at times by fatal consequence if the perceived threat targets the power in the Kremlin. Corruption is endemic and premeates the very top, and a constant barrage of State controlled misinformation and propaganda keeps the public on side and patriotic through the ever deteriorating internal conditions. Externally, Russia is a growing political and military aggressor, with territorial encroachment and expansion ambitions, brandishing its still formidable nuclear power as a threat to keep its opposers in the West at bay. And internally, it is a fast deteriorating economy that in the current global economic environment is going to deteriorate and destabilize further.

Yup, it sure sounds more and more like the former USSR.



The Global
Economies –
The Escalating
Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

BRAZIL: Brazil today is in deep political and economic trouble. After showing real promise at the height of global boom, a decade ago, which had sent commodities soaring, Brazil was considered the most promising of all the 'BRIC' countries (*Brazil-Russia-India-China*). Today, it is considered a broken and dysfunctional State.



Even as we write this Report, there have been ongoing massive protests all over Brazil against the incumbent Government, and calls for the impeachment of President Dilma Rousseff.



The Brazillians are increasingly frustrated and angry by Brazil's latent economic promise never really materializing. And, they having to bear the certain burden of its soaring unemployment, crime, the rising cost of living, the poor quality of its education and health care system, and mostly Brazilians are fed up with the entrenched corruption at the highest levels of Government.

The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON

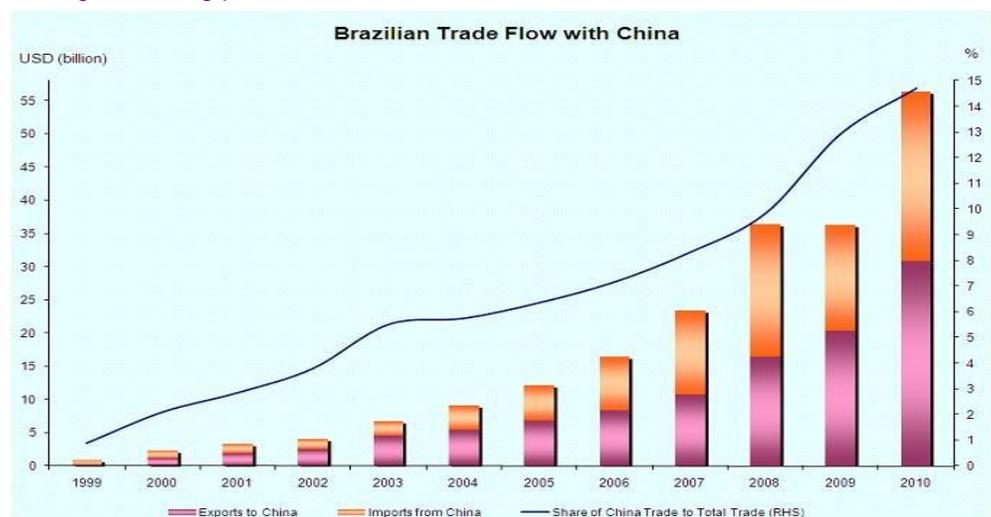
More recently, that simmering anger has turned into sheer outrage, as it became increasingly clear that the massive corruption scandal in Brazil's biggest and most important oil company, Petrobras, took place under the Chairmanship of the now President Dilma Rousseff, and some of the highest officials in the incumbent government. Over \$2.0 Billion in kickbacks and bribes have been alleged to been given to officials which were then funnelled to political parties they favoured, including the Party of the then Chairperson, and now President, Dilma Rousseff.

Brazil's economy has been increasingly in trouble due to the deteriorating global demand over the past years. More than halfway through 2015, Brazil's economic contraction is gathering momentum, and there is no near term respite in sight.



SOURCE: WWW.TRADINGECONOMICS.COM | INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATÍSTICA (IBGE)

The steep and persistent decline in global commodity demand has seriously hurt Brazil. In the past two decades of the global boom, it exported its vast natural resources to the previously resource hungry World, and in particular to insatiable China. As China's economic boom escalated 20 years ago and then really hit stride, post 2008 crash due to the unprecedented 'post crash, economic stimulus', its trade with Brazil boomed and China became Brazil's largest trading partner.



The Global Economies – The Escalating Train Wreck Part 3

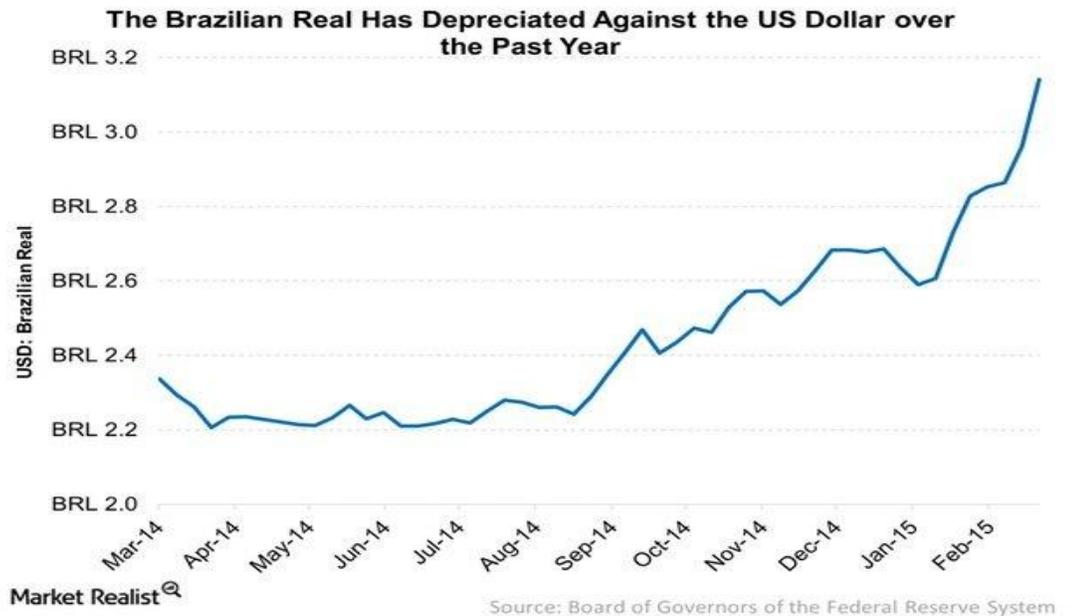
WRITTEN BY: ASHOK DHILLON

Conversely, last year, as China’s economic growth rate materially slowed , Brazil’s exports to China began their decelerating decline.



SOURCE: WWW.TRADINGECONOMICS.COM | MDIC, BRAZIL

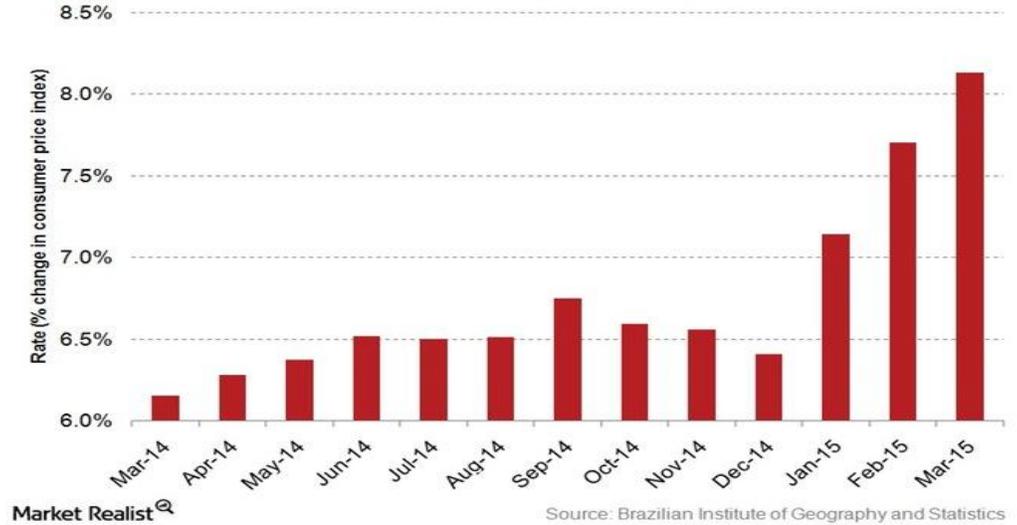
As Brazil’s economic problems mount, its currency the Real, has been increasingly losing value against the U.S. Dollar, making exports cheaper but imports significantly more expensive and driving up inflation. The already economically stressed Brazilians are facing ever greater hardships as prices escalate nationally.



The Global Economies –
The Escalating Train Wreck
Part 3

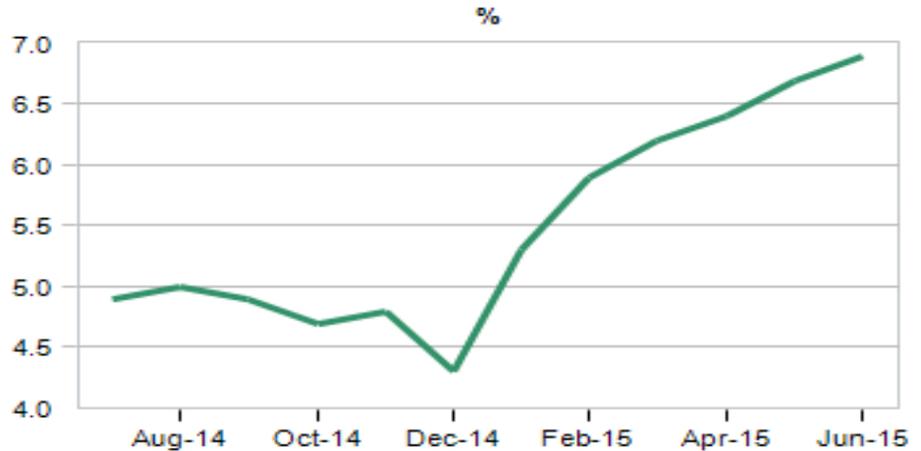
WRITTEN BY: ASHOK DHILLON

Brazil's Inflationary Woes Deepen



Jobs and wages which had been growing in the past years, are again tumbling rapidly.

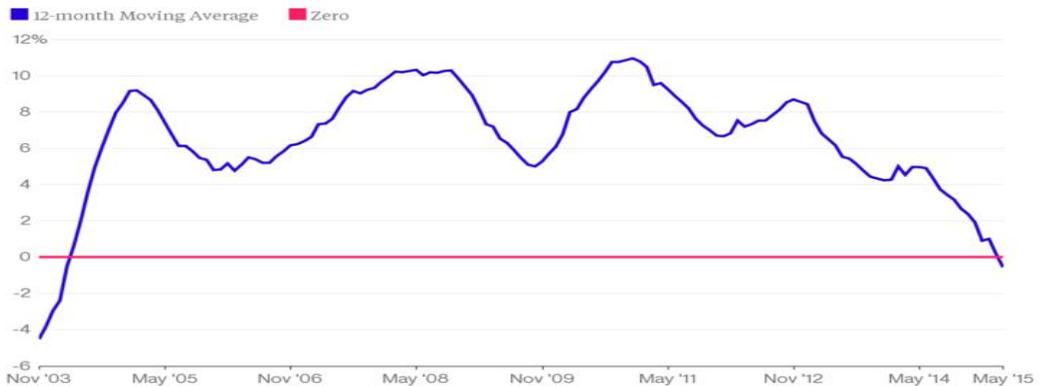
Brazil Unemployment Rate



Therefore it is no surprise that retail sales continue to fall.

Brazil Retail Sales 12-Month Moving Avg. Returns to Negative Territory

May marked the first negative reading in more than a decade



Source: Brazil's national statistics institute, IBGE

Note: 12-month moving average based on year-on-year retail sales figures

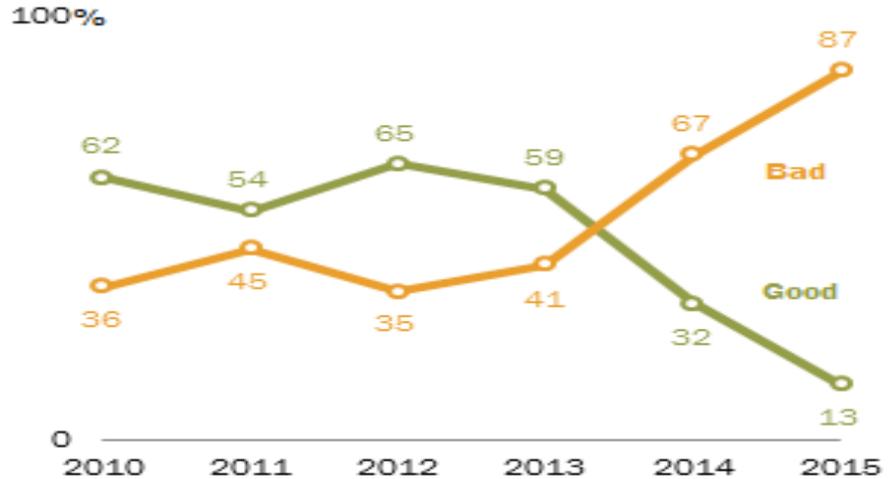
The Global Economies –
The Escalating Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

The public sentiment in Brazil is very negative and growing pessimistic by the day. The Chart below shows the rapid rise in the negative assesment of the Brazilians, regarding the Country's economic situation (*climbing now to 87%*). Given the deterioration of Brazil's economic fundamentals and its current political crisis, we fear Brazil faces a number of very tough years, and the Brizilian people are going to face increasingly harder times in the near future.

Rapid Decline in Brazilians' Assessment of Economy

Current economic situation in Brazil is ...



Source: Spring 2015 Global Attitudes survey.

PEW RESEARCH CENTER

We can be sure the negative sentiment in Brazil will keep increasing.



President, Dilma Rousseff

The Global Economies –
The Escalating Train Wreck
Part 3

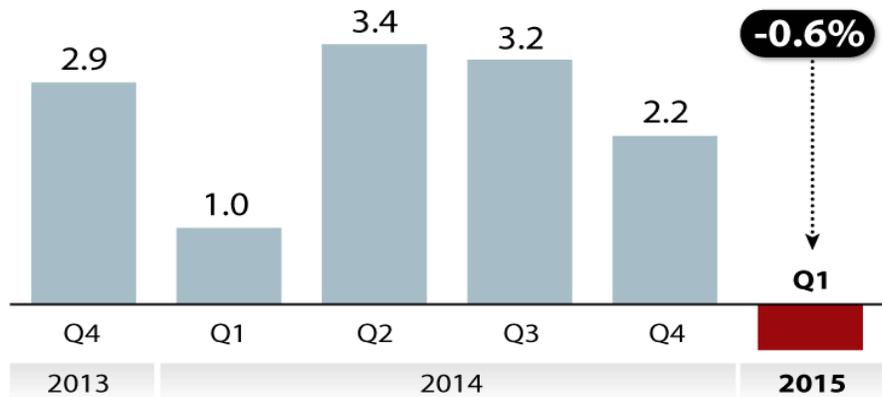
WRITTEN BY: ASHOK DHILLON

CANADA: During the recession caused by the 2008 crisis, Canada was the least affected out of the G7 countries. Its economy contracted the least, and recovered the most in the post crash years (see Chart below). But the lack of a real global recovery and the resultant lack of general demand for goods, services, and natural resources, particularly the sharp drop in China's economy from last year, has finally caught up to Canada and has pushed its economy into a recessionary decline (see the next two Charts as they show the latest numbers this year).

ECONOMY WEAKER THAN EXPECTED

The economy shifted into reverse over the first three months of the year as it contracted at an annual pace of 0.6 per cent amid the global oil slump.

ANNUALIZED PER CENT CHANGE IN REAL GDP

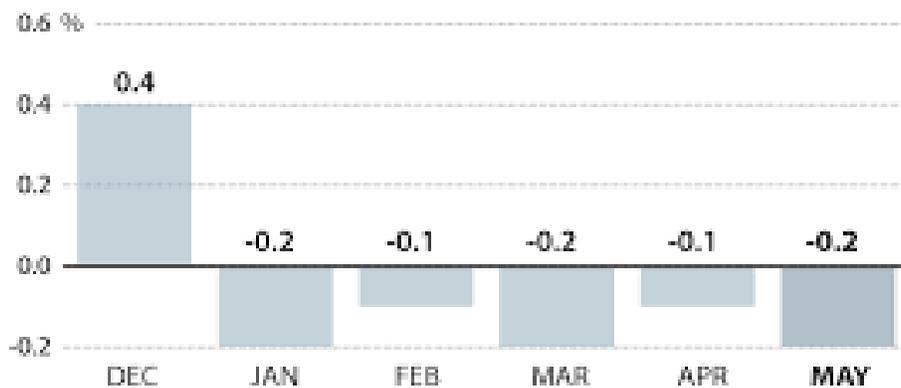


SOURCE: STATISTICS CANADA

THE CANADIAN PRESS

CANADIAN ECONOMY DECLINES

A look at the monthly change in Canada's real gross domestic product:



SOURCE: STATISTICS CANADA

THE CANADIAN PRESS

The Bank of Canada (BOC) has been acutely aware of Canada's vulnerability, particularly in energy, international trade, and in its red hot housing markets and heavily indebted households. In anticipation of a coming slowdown the BOC has been cutting its key lending rate ahead of the

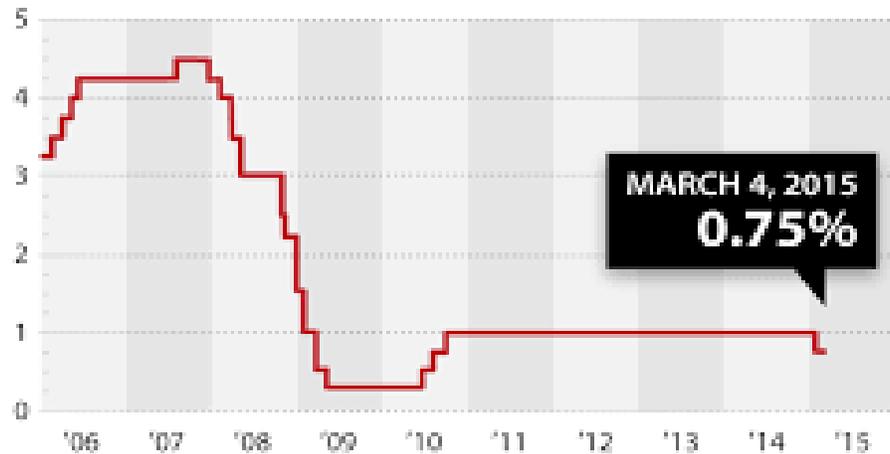
The Global
Economies –
The Escalating
Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

market's anticipation, which now is at 0.50%, a quarter percent lower (cut on July 15, 2015) than the 0.75% shown in the Chart below.

KEY OVERNIGHT INTEREST RATE

A look at the Bank of Canada's trend-setting overnight rate:

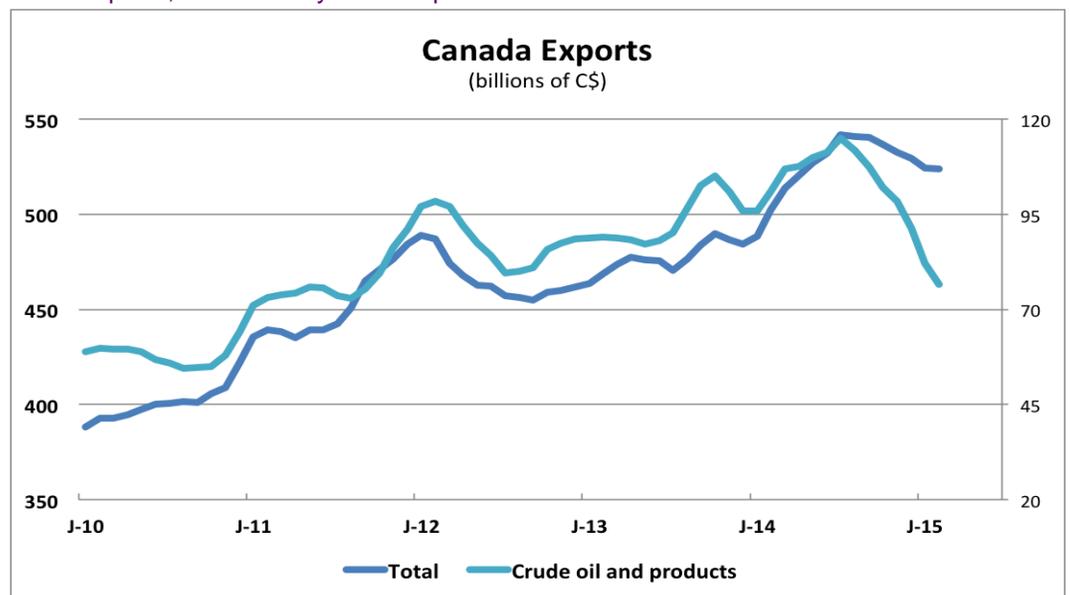


SOURCE: BANK OF CANADA

THE CANADIAN PRESS

Canada is an exporting country with almost 80% of goods and services going to its largest trading partner, the United States. Europe and China are the next largest. As the U. S. slows, together with the economic problems of Europe and China, Canada's economy becomes hostage to the growing weakness of its three largest trading partners.

While Canada's economy is well diversified, yet energy and energy products make up a significant part of its exports. The significant drop in international oil and natural gas prices over the last twelve months has hurt Canada's exports, as shown by the sharp correction below.



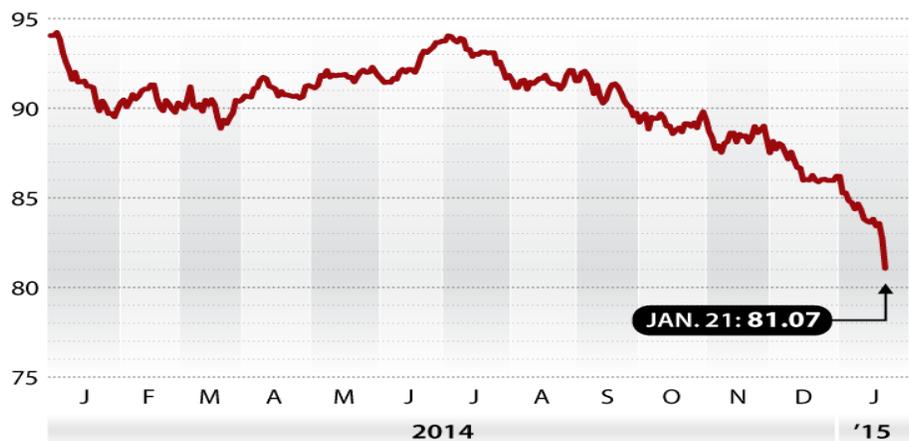
Source: Statistics Canada

The Global Economies –
The Escalating Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

The Canadian dollar's value has been dropping versus the U.S. dollar, coinciding with the drop in oil prices and the growing problems in the global economies from mid 2014. And with the Bank of Canada lowering interest rates to forestall the effects of the oncoming economic contraction this year, the Canadian dollar was pushed down sharply this year and is currently at \$0.76 U.S.

CANADIAN DOLLAR IN U.S. CENTS

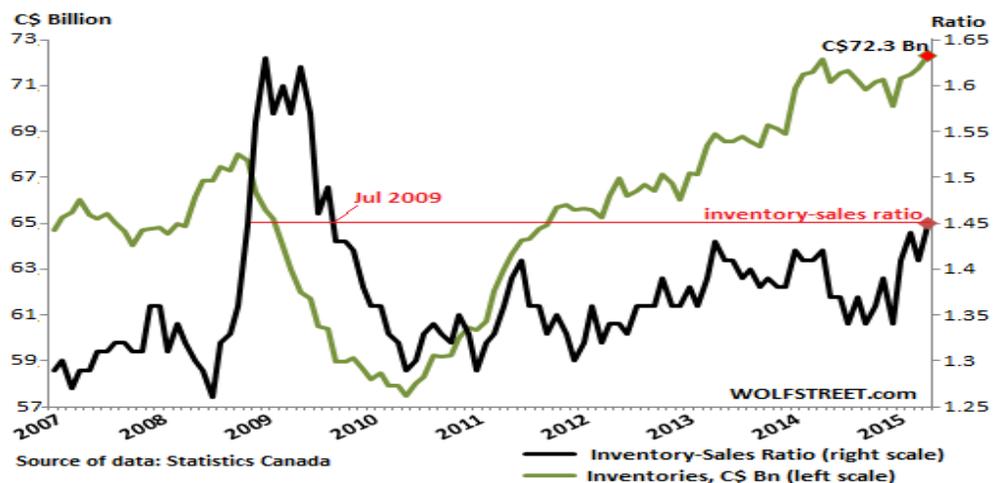


SOURCE: BANK OF CANADA

THE CANADIAN PRESS

Along with energy, other parts of the Canada economy are starting to feel the effects of the general downturn, such as the accumulating inventories and the resultant slowdown in manufacturing (*the next two Charts*). And even though experts in Canada expect the Canadian economy to bounce back in the later part of this year, due to the weaker dollar and lower energy prices, we don't. We think the growing weaknesses in the major economic regions of the global economy, particularly China, the United States and Europe, and the general global energy glut, will continue to slow Canada's economic growth well into the remainder of the year.

**Soaring Inventories & Inventory-to-Sales Ratio
2007 - April 2015, Current C\$**



Source of data: Statistics Canada

— Inventory-Sales Ratio (right scale)
— Inventories, C\$ Bn (left scale)

The Global Economies –
The Escalating Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

Canada Manufacturing Gets Hit
2007 - April 2015, Seasonally & Inflation Adjusted



Canada miraculously and inexplicably escaped the carnage of the U.S. housing market, post the 2008 'sub prime credit' crash. In Canada, housing prices not only escaped the crash but, except for a brief dip, resumed their steady climb. Today Canada's hot housing market is widely considered, by international institutions, and global experts, to be a vulnerable bubble.

MOST OVERVALUED HOUSING IN THE WORLD

IMF warns Canada of housing bubble; BoC tries to dispel rumours



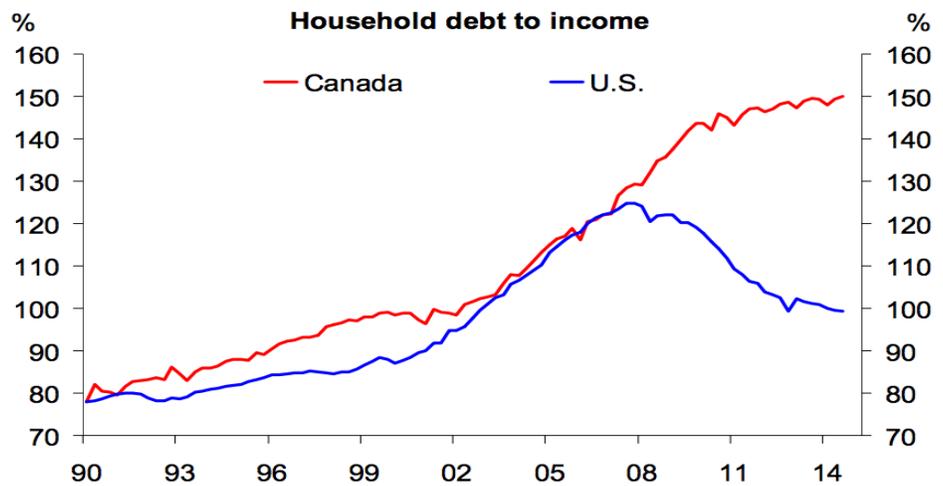
The Bank Of Canada is also worried by the vulnerabilities of the Canadian housing market, and has said so a number of times due to the high level of household debt in Canada. BOC knows, a contraction in Canada's economy could trigger a serious drop in value in the housing market. It is estimated by

The Global
Economies –
The Escalating
Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

various institutions that Canada's housing market is generally overvalued by at least 30%. Unfortunately BOC finds itself in a quandry, having to drop its key lending rates to try and prop up the softening economy, which in turn further boosts the housing market, making it more vulnerable eventually to a bigger collapse.

Canada is in serious trouble



Source: StaCan, FRB, Haver Analytics, DB Global Markets Research

Canada is a well diversified, strong export economy, with approximately 45% of its GDP going to exports. And therein lies its weakness, in the type of the global economic environment that we have today, one of general falling demand. It is not only the demand for energy and natural resources that is falling but the global economies are plagued with over capacity in just about all sectors. For a Country such as Canada, the fall in exports triggers fall in internal capital investments in new projects and expansions. Especially in the capital intensive energy sector in the Province of Alberta, where tens of Billions in project investment has been cancelled or deferred, resulting in job losses that otherwise would have gone ahead.

With the U.S., China and the Euro Zone struggling with economic growth, Canada's economy will continue to contract till there is a general and real economic recovery in those markets, which is possibly years away. Which means that Canada's economic contraction or stall may be here to stay for quite some time.

The Global
Economies –
The Escalating
Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

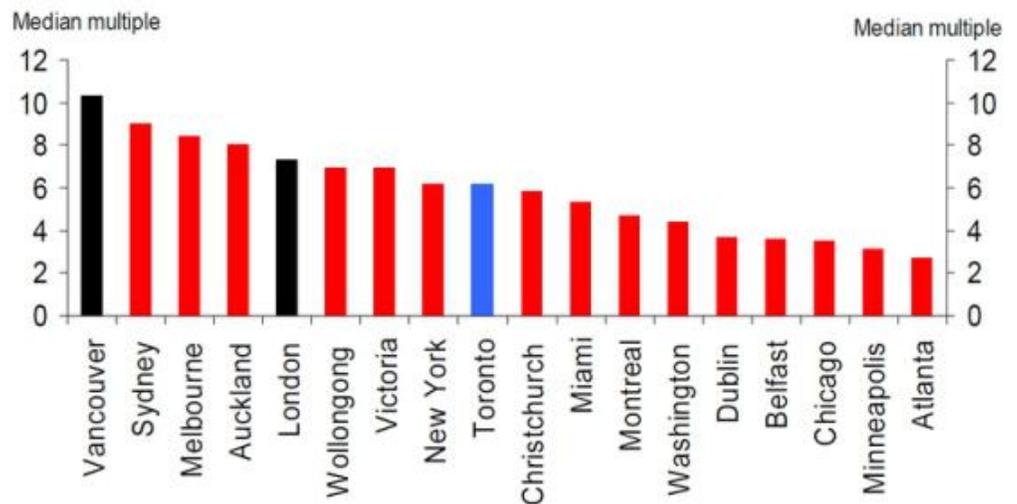
AUSTRALIA: There are many things common between Canada and Australia. Their large geographical size and their relatively small populations being the two obvious ones. Plus they are both resource rich and raw material exporting giants dependent on their trade markets for their internal economic well being. Canada is highly dependent on the U.S. market which is the Worlds largest and richest, while Australia is dependent on Asian markets which includes the emerging giant China. In mid 2015, they are both facing similar difficulties as their respective major markets contract due to shrinking external and internal demand.

The other thing that both countries currently share is some of the most expensive real estate markets in the World. Out of the 10 most expensive real estate cities in the World (*as per median household income*), 5 are in these two countries (*2 in Canada, and 3 in Austrlia*). At various times both the countries have been warned by international financial institutions, such as the IMF, about their over exuberant real estate markets and the possibility of stong corrections. But, in the last two decades, the attractiveness of these two countries to immigrants and investors, seeking first World political and economic safe havens, especially out of China and Asia, and all the other trouble spots in the World, and the two decade boom in natural resources due to global demand, kept these markets bouyant and climbing. As the economic World shrinks, the possibility of a correction in the real estate of Canada and Austrlia becomes ever more certain.

Home prices overvalued in Canada and Australia:
Vancouver and Wollongong more expensive than New York



Median house price to median household income (Q3-2013)



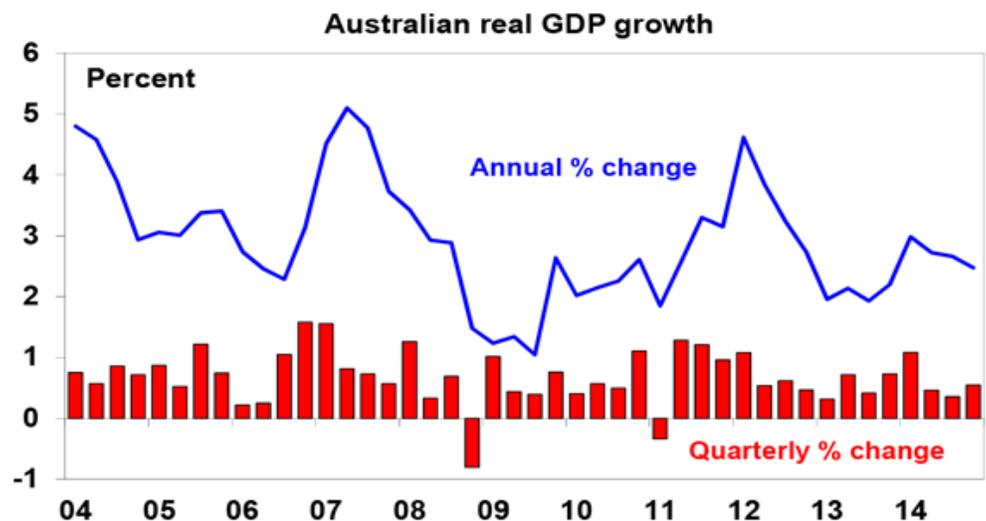
Source: 10th Annual Demographia International Housing Affordability Survey: 2014, DB Global Markets Research
Deutsche Bank

The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON

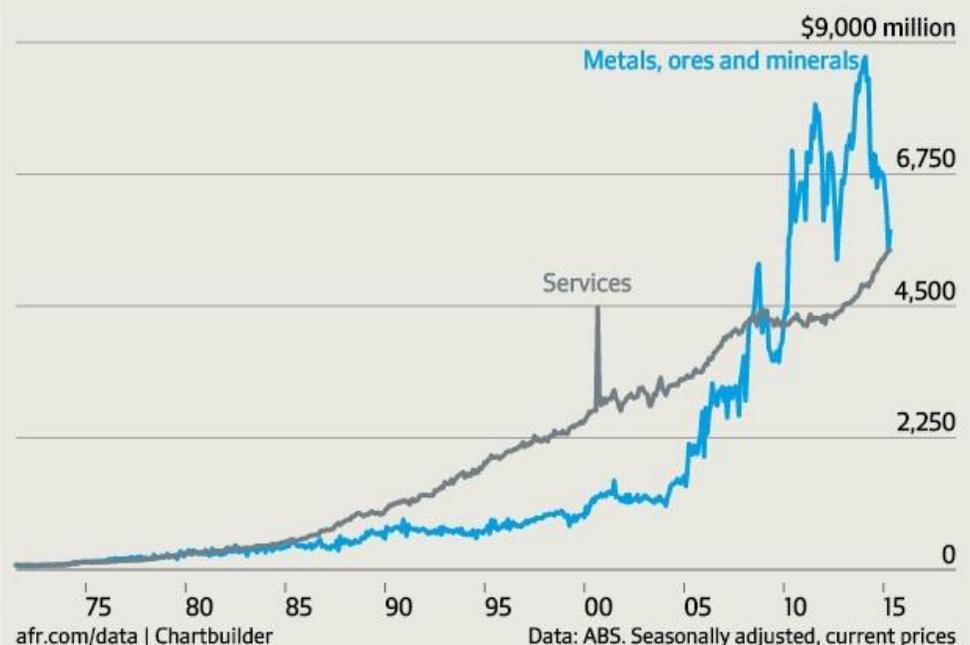
Australia has been one of the very few countries in the World that has gone 24 years without a recession! Of all the developed countries, and alongside Canada, Australia has been in the best economic shape. GDP growth is currently at 2.8%, which is one of the best growth rates in the developed economies. But that is starting to change.

With China and Asia slowing down materially, especially China, the Australian economy is trending downward and the natural resource exports are falling.



Source: ABS, AMP Capital

Australia monthly exports (value)



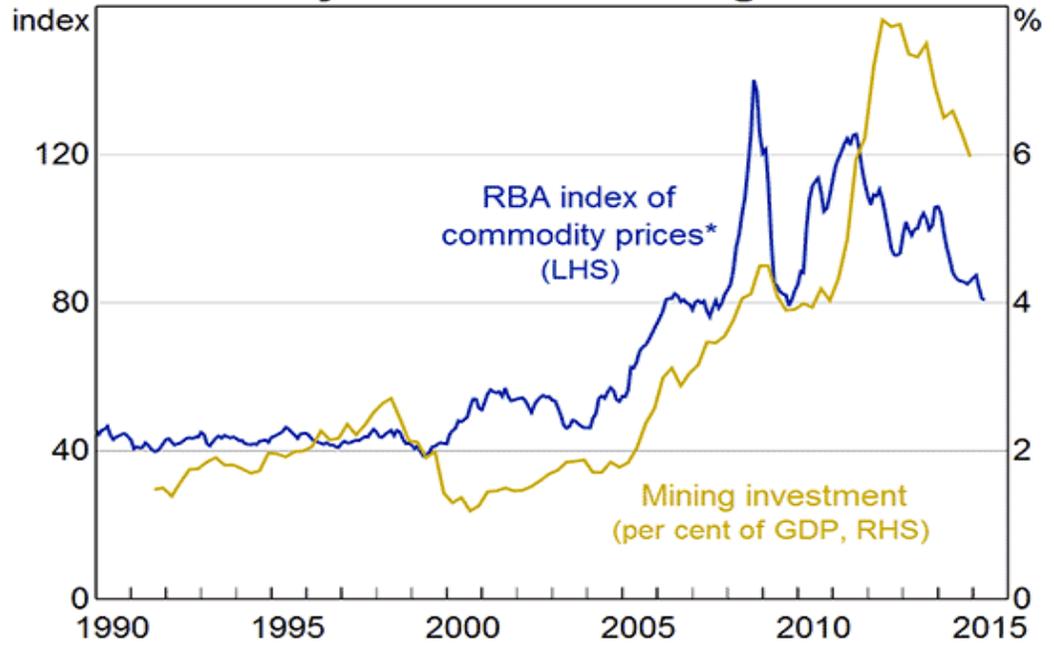
Data: ABS. Seasonally adjusted, current prices

With commodity prices at all time lows, capital investments in mining have fallen 34%, and with business sentiment turning bearish, non-mining investments have dropped 24% (next Chart).

The Global Economies –
The Escalating Train Wreck
Part 3

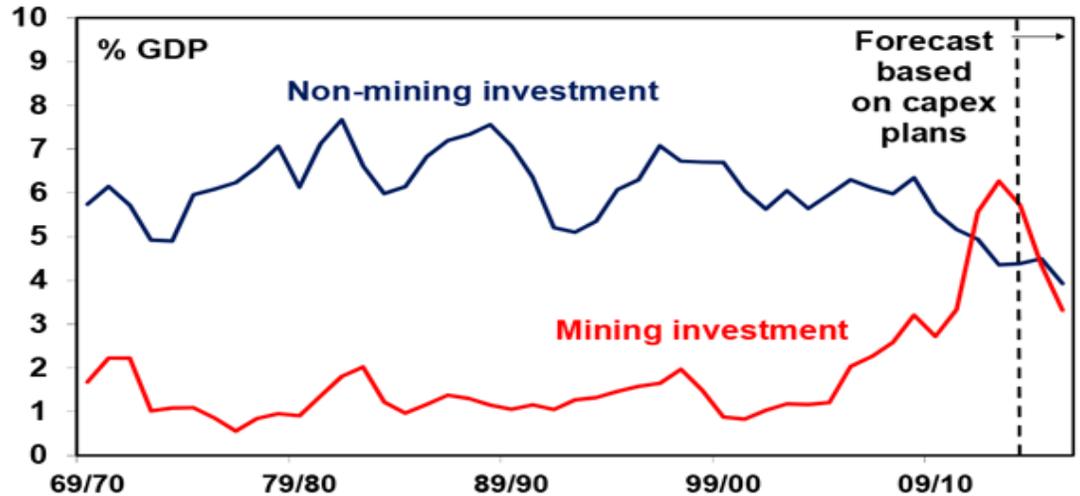
WRITTEN BY: ASHOK DHILLON

Commodity Prices and Mining Investment



* In Australian dollar terms
Sources: ABS; RBA

Business investment as a share of GDP



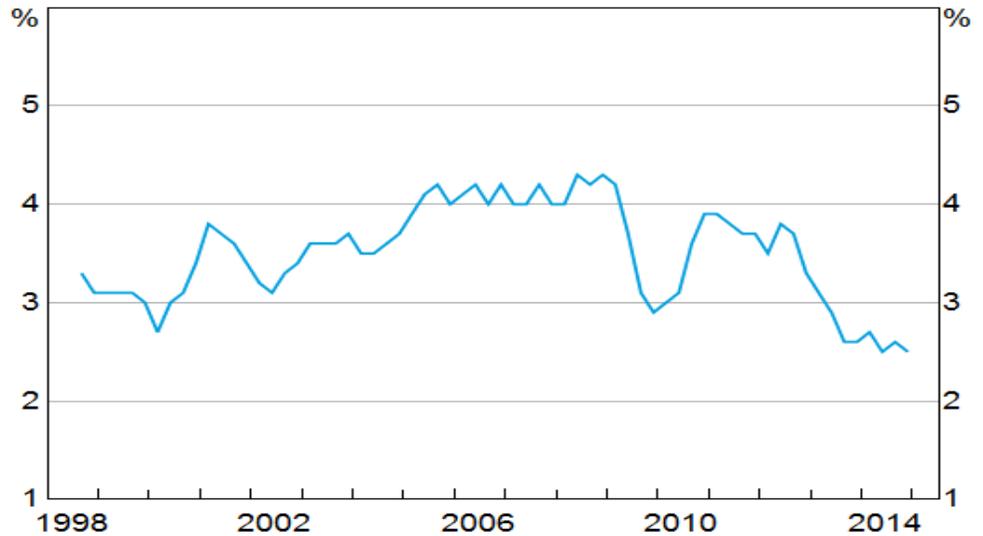
Source: ABS, AMP Capital

The Global Economies – The Escalating Train Wreck Part 3

WRITTEN BY: ASHOK DHILLON

With the general turn for the worse for the Australian economy, understandably wage growth has also been impacted negatively, which in turn is eroding consumer confidence (*next Chart*)

Wage Price Index Growth*
Year-ended



* Excluding bonuses
Source: ABS

FIGURE 2. CONSUMER CONFIDENCE BACK BELOW AVERAGE LEVELS



Source: ANZ-Roy Morgan

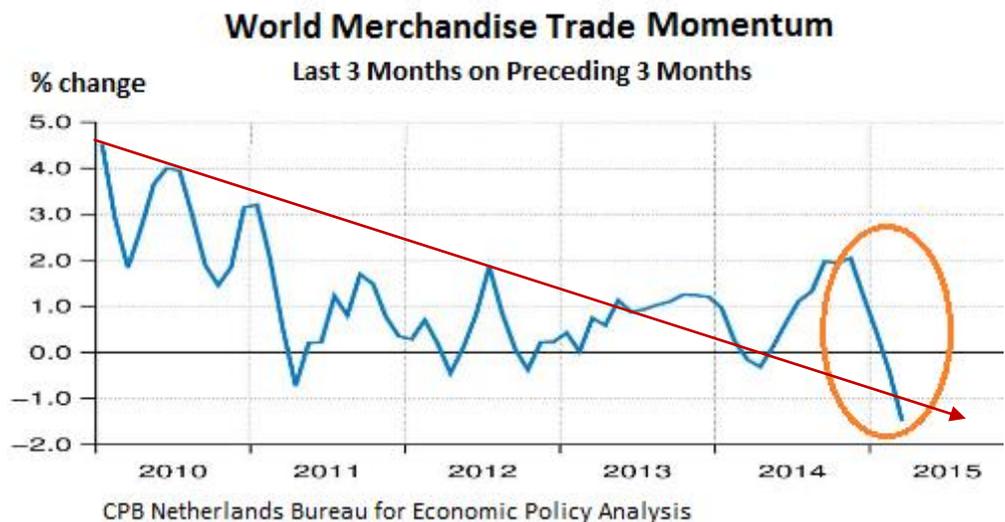
Australia is just starting to feel the real impact of China's unraveling and Asian and global economic contraction. For the rest of the year we feel that Australia will continue to soften.

As our readers are aware, the past two or more years have been bordering on the surreal in the global economic world. Even though it became obvious a few years ago (*or it should be by now*) that Quantative Easing (QE) was not a solution to engender a sustainable economic recovery of faltering national

The Global
Economies –
The Escalating
Train Wreck
Part 3

WRITTEN BY: ASHOK DHILLON

economies or regions (*the Eurozone*), the Central Banks have single mindedly pursued that method of recovery in concert with the lowest interest rate possible. They have tried to revive the impossible dream of the perennially growing global economy. From our first Economic Report in September of 2012, we have steadfastly maintained in all our 24 subsequent Reports, that sustainable global economic recovery was not possible with more liquidity or easing, and that this path of ever increasing debt chasing ever shrinking economic activity, will lead to a global economic catastrophe. Those days seem to be upon us.



Regardless of the grim economic reality, the Central Banks, governments and experts, talk incessantly of growth everywhere. In their view, the constant cascade of bad news in the past few years has been good news, as it justifies the unleashing of more financial stimulus, which the stock markets certainly love. In America, Europe, China and Japan, and elsewhere, the stock markets roared upwards in anticipation of more economic stimulus in the face of continuing terrible economic news. The sheer insanity of such a warped reality is now looked upon globally as 'the new normal'. All we can say is, at some point in the near future, this period of time will be looked upon in wonder, as the time when the leadership of the World had gone collectively insane. To these blinkered reality deniers, the larger tremors that are rolling through this year are not forewarnings of a debt overloaded global economic structure coming apart, but in fact are mere rumblings of a global economic system hungry for even more stimulus!

All who are clinging on to the 'recovery' myth, in the face of the groaning reality, are simply unwilling to see the impending disaster, or state it. We have no hesitation in stating the obvious. We had stated China was already in a hard landing in our last Report (*May, 2015*), which today is being reluctantly acknowledged, in the face of the constant barrage of bad news coming almost daily from China. It is only a matter of time now before the collective economic reality of these past years comes crashing in and brings the global economic system once again to its knees.