

U H E R O

Celebrating Ten Years of Service to Hawaii

The U.S. and Global Recovery: Prospects for Asia

East Asia Beyond the Global Economic Crisis

Tokyo

December 1, 2009

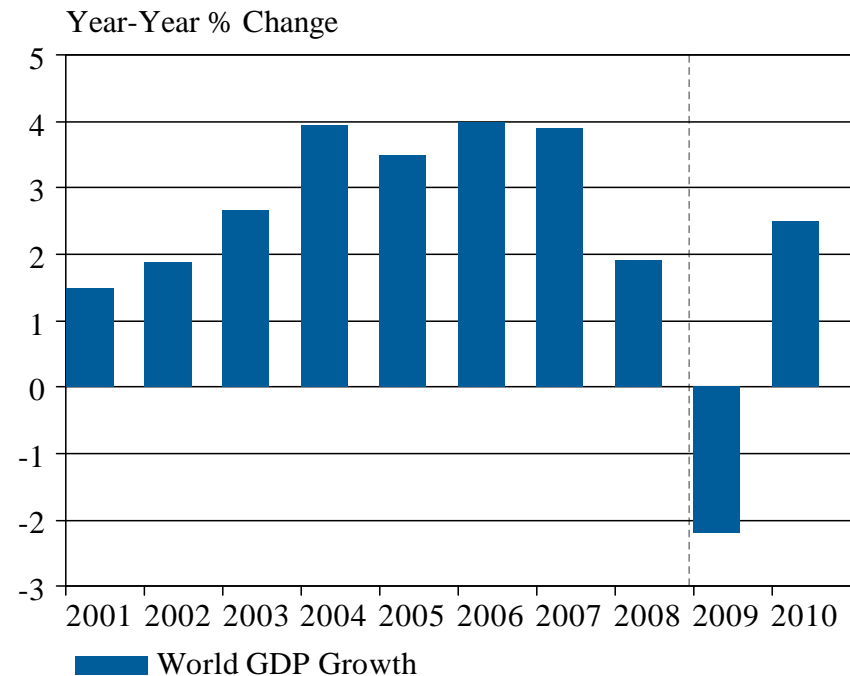
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World recovery is underway

- 2009 will be 1st year since the 1930s to see negative global growth
- Recovery is underway
 - Japan grew in 09Q2 and Q3
 - U.S. and Euro zone in Q3
 - Dynamic Asia leading rebound



Source: UHERO and UN Project LINK. World GDP at market exchange rates.

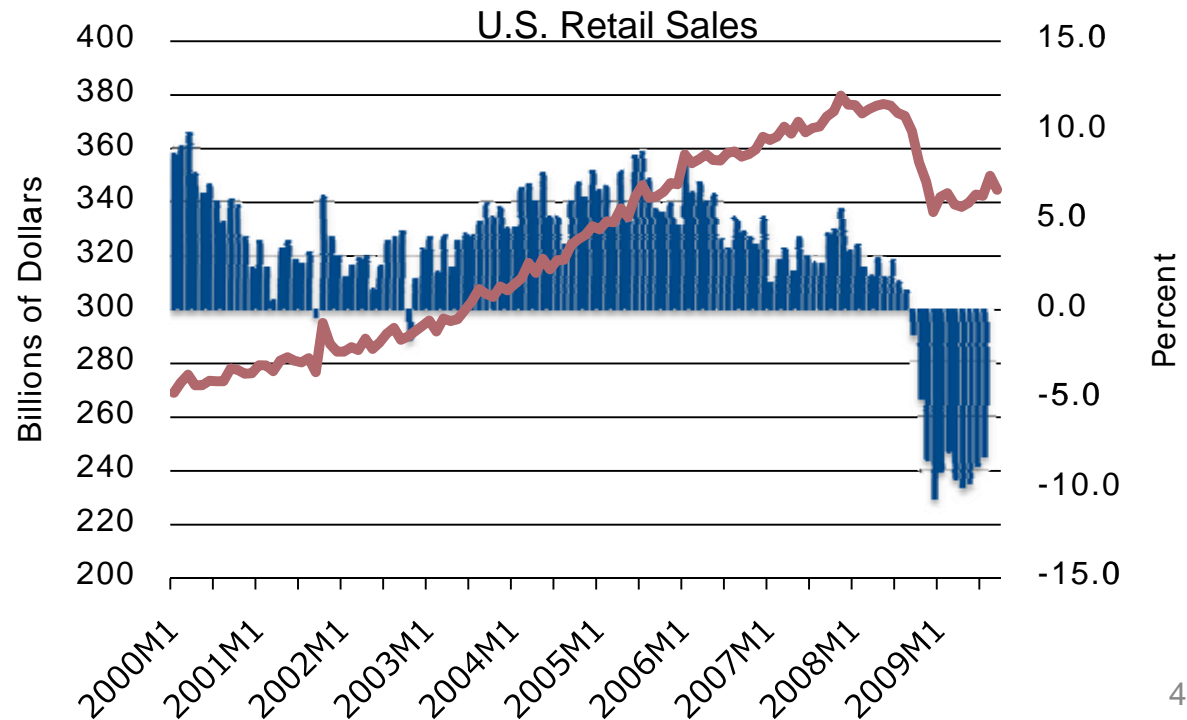
- But...
- A deep hole to climb out of
- And recovery is likely to be weak by historical standards

U.S. recession has ended

- U.S. economy has been expanding for several months
 - Manufacturing growing and orders rising
 - Service sector has shown recent growth
 - Housing market has stabilized
 - New claims for unemployment peaked in April
 - GDP grew at 3.5% annual rate in 3rd quarter
- Recovery is likely to be modest
 - After -2.5% GDP this year, I expect +2.4% in 2010
 - Job losses are ongoing; modest rebound will keep labor market weak for years
 - Economy faces some significant challenges...

Challenges to U.S. economic recovery

- Prospects for a consumer rebound poor
 - Consumer confidence low and spending remains very weak
 - » A fallback after “cash for clunkers,” home-buying incentives end
 - Weak labor markets and deleveraging will weight on spending

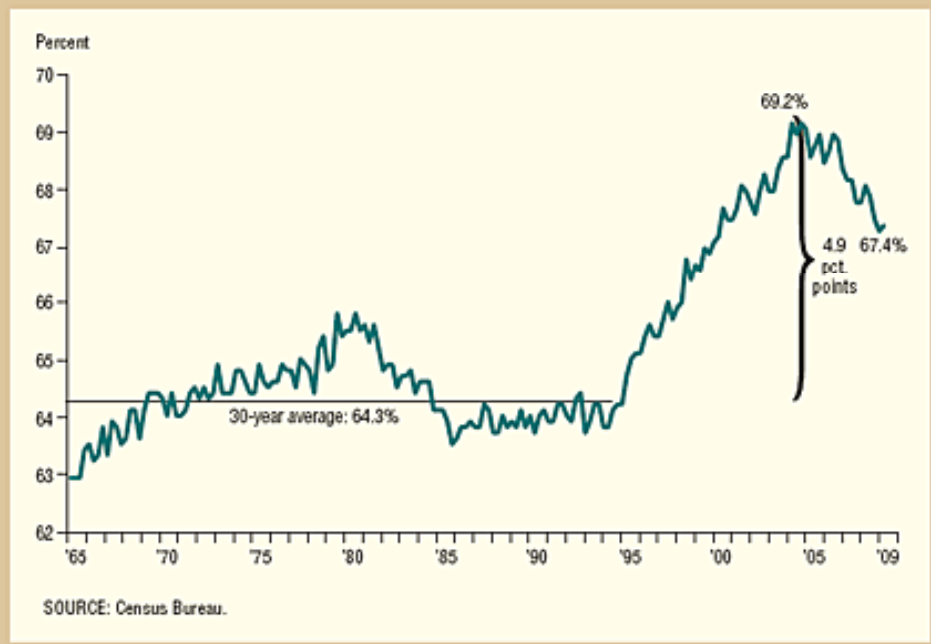


Challenges to U.S. economic recovery

- Strong rebound of residential investment unlikely
 - Home ownership hit record 69.2% in early 2005
 - End of the “democratization of credit”?
- Other concerns
 - State/local fiscal drag
 - Premature fiscal retrenchment?
 - Global prospects?

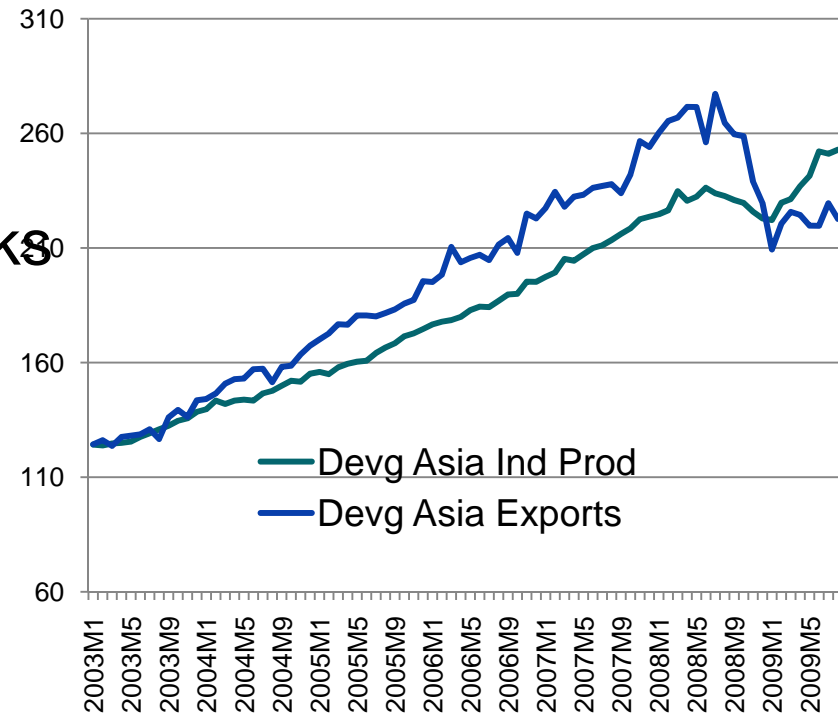
Chart 1

Housing Boom Drives Up U.S. Homeownership Rate



Developing Asia leading recovery

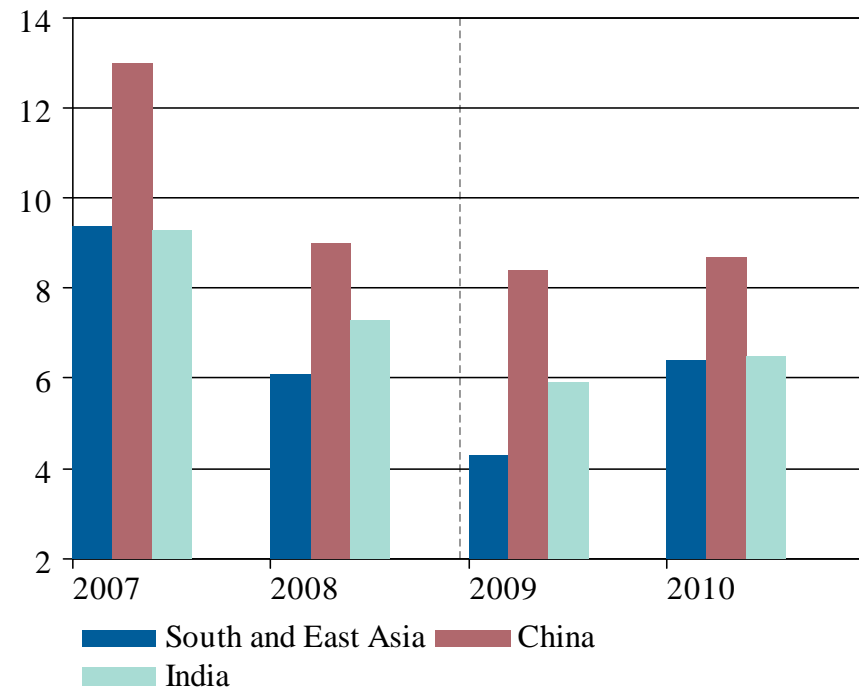
- Last year's export collapse was unprecedented
 - Global production networks spread weakness
 - Domestic demand falloff also contributed
- Strong inventory cycle now driving rebound
- Inter-regional trade will weigh on recovery



Source: CPB Netherlands Bureau for Economic Policy Analysis

Developing Asia leading recovery

- Small, export-dependent countries hit hardest last year
- South Asia less affected
 - Less dependence on trade
 - Remittances helped
- China has benefited from fiscal stimulus and massive lending
- Region avoided financial crises this time



Source: UHERO and UN Project LINK. Regional aggregation at market exchange rates.

A “mixed bag” for developing economies

- World demand and trade are growing again
 - But growth in U.S., Japan and Europe will be slow
- Commodity prices have firmed
 - And for now oil prices remain moderate
- Weak dollar threatens competitiveness, for some
- Access to credit is improving
 - But riskier borrowers still see increased spreads
- World recovery is vulnerable to fiscal and monetary policy reversals