The Recent Reduction in Global Macroeconomic Uncertainty

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Arkansas State University
Agribusiness Conference
13 February 2013
Jonesboro, Arkansas

Any opinions expressed here are my own and do not necessarily reflect those of others on the Federal Open Market Committee.
In recent months we have seen a welcome reduction in global macroeconomic uncertainty.

- Is the less uncertain environment likely to persist?

A less uncertain macroeconomic environment, should it continue, is a bullish factor for 2013 U.S. economic growth.
The Uncertainty Problem
The uncertainty problem

- Business leaders are concerned about the uncertain macroeconomic environment.
- A more uncertain macroeconomic environment makes it more difficult to make business investment decisions.
- Business leaders often say they cannot go ahead with large commitments without more confidence in the future macroeconomic landscape.
- Geeky version: There is *an option value of waiting* to see how the uncertainty is resolved.
Uncertainty as a fact of life

- Uncertainty never goes away completely, but it can be relatively high at times and relatively low at other times.
  - It is not easy to measure.

In this talk I will argue that global macroeconomic uncertainty has been relatively high in the past three years.

By contrast, 2013 has dawned with a reduction in global macroeconomic uncertainty that may persist for some time.

This is a bullish factor for U.S. macroeconomic growth prospects.
Sources of global macroeconomic uncertainty

Europe
- European sovereign-debt crisis: Relative calm.
- Euro-area growth likely to improve in 2013.

Emerging market economies
- 2012 slowdown expected to reverse in 2013.
- China’s leadership transition complete, recent growth stronger.

U.S.
- Election cycle is over.
- Fiscal cliff partially resolved.
- Other uncertainties remain on the table.
European Sovereign-Debt Crisis: Relative Calm
The European sovereign-debt crisis

- The crisis began in earnest in the April-May period of 2010.
- The crisis intensified significantly in August 2011.
- The crisis continued into 2012.
  - An ECB program offered a respite in late 2011.
  - July 2012: The ECB moves toward an “Outright Monetary Transactions” (OMT) program.
- The Euro-area crisis has been a driver of financial stress in the U.S.
Financial stress

The European sovereign-debt crisis calms down

- The announcement of the ECB’s OMT program has so far been more successful than might have been anticipated.

- The ECB has so far not been required to purchase national sovereign debt under the program.

- How the program will proceed during 2013 is difficult to predict.
Euro-area 10-year bond spreads

10-year government bond yield spreads over Germany

- Portugal
- Ireland
- Italy
- Spain
- Greece (right scale)

07/26/2012 Speech by President Draghi at GIC conference in London

Euro-area 5-year sovereign CDS spreads

European Recession
The European sovereign debt crisis can be viewed as an aftershock from the global financial crisis of 2008-2009. Its repercussions were severe enough to drive the Euro-area into recession during 2012.
Unemployment in the U.S. and in Europe

Europe now likely to stabilize or recover

- While 2012 was marked by a clear downshift in Euro-area economic growth …

- … 2013 will likely see either a stabilization or some recovery in Euro-area growth.

- In this sense the uncertainty concerning the European outlook has been reduced.
Euro-area real GDP growth

U.K. real GDP growth

Emerging Markets
Emerging market economies

Emerging market economies slowed during 2012 ...

… in part due to the European recession ...

… but these economies are now expected to fare better in 2013.

China’s growth has recently been stronger.
# Emerging market economies growth

## Year-over-year real GDP growth

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<th>2011</th>
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<th>Projections 2013</th>
<th>Projections 2014</th>
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Source: International Monetary Fund, World Economic Outlook UPDATE, January 23, 2013.
China real GDP growth

Macro Uncertainty in the U.S.
Key macroeconomic uncertainties in the U.S.

- The U.S. election cycle is now over.
  - Election outcomes were an important source of uncertainty a year ago.
- Fiscal cliff concerns have been partially resolved.
- Temporary effects stemming from the drought last summer and from Superstorm Sandy are dissipating.
- Housing markets appear to be more robust.
  - Fear of continued decline in home prices remained a source of uncertainty a year ago.
- Other uncertainties concerning the implementation of new health care laws and longer-term fiscal outlook remain.
House prices

Source: Standard & Poor’s (*), FHFA (*), CoreLogic/Haver Analytics (**), and author’s calculations.
Conclusions
Summary

- This year seems to be characterized by less macroeconomic uncertainty compared to previous years.

- This bodes well for U.S. macroeconomic prospects in 2013.