



*December 2011*

## **Global Overview**

### **Global outlook improves on healthier economic data**



Fears of a recession in developed economies such as the U.S. have receded as recent data releases indicate that economic activity has not weakened as much as thought earlier. Though European economies are still expected to see a decline, there is now increased optimism that the monetary union and the common currency will survive the crisis. Large European countries such as Spain and France have been able to sell new bonds at relatively affordable costs and the European Central Bank has cut its benchmark rate again, besides extending additional liquidity support to the region's banks.

Global manufacturing activity rebounded in December, helped by stronger than expected expansion in the U.S. and emerging economies such as China and India. Consumer sentiment in the developed markets has become relatively more optimistic, on the back of labor market improvements in key economies such as the U.S. and Germany. This has lifted the outlook for exports of manufactured goods from emerging economies, while commodity exporters are hopeful of better prices if the global economy continues to improve.


#### **Inflation risks have receded across the globe**

The moderation in industrial and consumer demand, especially in the large emerging economies, has led to a decline in global inflation risks. Most commodity prices have corrected and, though oil prices remain relatively high, subdued natural gas prices have helped industrial consumers contain energy costs in some regions. Global food prices declined more than 10 percent in 2011, according to data from the UN Food and Agricultural Organization, and are expected to fall further in 2012. These trends have also been confirmed by the slowing headline inflation in large emerging economies, especially China and Brazil. Accordingly, central banks should have more flexibility in their monetary policy decisions in 2012. Among the large emerging economies, Brazil, Russia, and Indonesia have already lowered their benchmark rates to support domestic demand.

## Large automakers and flash memory manufacturers see healthy growth

Better than anticipated demand in the U.S. has helped the auto industry weather the weakness in Europe and select markets in Asia. The introduction of more fuel efficient vehicles at affordable price points is driving demand in the mass market segment, while sales of luxury vehicles have remained robust since the 2009 recovery. The large, globally integrated manufacturers have benefited the most from this upswing as they have the ability to offer vehicle models across several markets at lower costs.

The semiconductor industry continues to see moderate growth in output, as demand for industrial devices and equipment remains subdued, and while hand-held devices and new gadgets are seeing healthy volume growth. The moderation in personal computer demand has been mostly offset by strong sales of smart-phones, tablet computers, and other devices. This trend has benefited manufacturers of flash memory chips, while makers of DRAM chips, the type used in personal computers, are struggling under declining product prices.

Meanwhile, global shipping capacity has grown at a faster pace than trade volume growth in recent years and has negatively affected the outlook for the shipping industry. New ships ordered when the demand outlook was stronger continue to join the fleets, and the capacity additions have been the highest in dry bulk carriers. The introduction of very large carriers that are more fuel efficient and productive has pulled down the charter rates. The rates have fallen below the average costs of less efficient shipping lines, and some of them have recently filed for bankruptcy protection. The lower margins of shipping lines have also affected the shipbuilding industry as orders for new ships have suddenly dried up. 

For a free subscription to this publication, or any of our other economic report offerings, please visit: [www.thomaswhite.com](http://www.thomaswhite.com)

## **Thomas White International, Ltd.**

One Financial Place,  
440 South LaSalle Street,  
Suite 3900,  
Chicago, Illinois 60605.  
Email: [feedback@thomaswhite.com](mailto:feedback@thomaswhite.com)

## **Thomas White India Pvt., Ltd.**

Suite 300, 3rd Floor  
Phoenix Towers  
16/1 Museum Road  
Bangalore 560001  
Tel.: 91-80-40187777

*This publication is for informational purposes only. This publication is not intended to provide tax, legal, insurance or other investment advice. Unless otherwise specified, you are solely responsible for determining whether any investment, security or other product or service is appropriate for you based on your personal investment objectives and financial situation. You should consult an attorney or tax professional regarding your specific legal or tax situation. The information contained in this publication does not, in any way, constitute investment advice and should not be considered a recommendation to buy or sell any security discussed herein. It should not be assumed that any investment will be profitable or will equal the performance of any security mentioned herein. Thomas White International, Ltd, may, from time to time, have a position or interest in, or may buy, sell or otherwise transact in, or with respect to, a particular security, issuer or market on our own behalf or on behalf of a client account.*

### **FORWARD LOOKING STATEMENTS**

*Certain statements made in this publication may be forward looking. Actual future results or occurrences may differ significantly from those anticipated in any forward looking statements due to numerous factors. Thomas White International, Ltd. undertakes no responsibility to update publicly or revise any forward looking statements.*

© Thomas White International, Ltd. 2012