Ten economic predictions for the next decade

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The 2010's was marked by slow growth, a rush to put out economic crises and increasingly polarizing politics. Here, we attempt to predict how the next ten years would look like for the global economy.

1. Global growth to remain slow

In the two decades before the 2008 Great Financial Crisis (GFC), three main catalysts largely propelled global growth: globalization, the rise of China, and (excessive) leverage. That dream came to an end with the collapse of Lehman Brothers in August 2008. Since then, globalization appears to have peaked, China's growth will likely continue its downward trajectory, and increased regulation on lending by banks around the world has capped leverage. We look at the horizon and see no suitable growth catalyst that will return global growth to the Great Moderation period. A case can be made for 5G technology, but the jury is still out if it may ultimately result in more destructive innovation than growth multiplication.

2. **Central banks to rethink inflation mandate**

Attempting to locate inflation today is like the central bank's version of playing *"Where's Waldo"*. In the game, however, we are at least sure that Waldo *exists* somewhere on the page – as for inflation, it is still unclear if it will ever return. Central banks around the world build their mandate on ensuring inflation does not run off the charts – with its disappearance, the need to rethink the fabled 2% inflation level is increasing. The rise of shale oil means high energy prices are unlikely to return. Other factors such as the dominance of e-commerce, increasing capital mobility, the decline of labour share in GDP and an ageing demographic will make this version of "*Where's Waldo*" a difficult game in the next decade.

3. **An East vs West economic landscape**

The last contender to have truly challenged US hegemony since World War II was the Soviet Union. That contender today is China, and in many regards, it looks in a much better position to overtake the US economy than the USSR did. It is fair to say that the US and the Soviet Union never saw eye to eye; similarly, it is also quite clear that the US and China are not on the most friendly of terms. Humans fear what they can't control. The trade war is probably the first of many measures the US is attempting to suppress the rise of China. While it is not exactly an *Iron Curtain* per se, we see the formation of two economic spheres of trade and influence: Asia, with China as its centre; Latin America and Europe, with the US as its core.

4. **More trade wars between nations**

Incentives (or the lack thereof) explain most economic decisions. When the stakes are high, the chance of carrying out a threat is low. With the apparent peaking of globalization and slowing of global growth, the monetary penalty of a trade war – regardless of the motivation – has significantly decreased. The US-China trade conflict is just the beginning; already, we have seen Japan and South Korea engage in its own trade war. To be fair, the use of tariffs and sanctions as acts of retaliation have long been in place before the US-China trade war; into the new decade, however, we think the new wave of trade wars will be bigger and more nationalised.

5. **Peak globalization**

It is probably easy to point fingers at Donald Trump for starting the downfall of globalisation, but in fairness the wealth from globalisation has not trickled through evenly. In developed economies, outsourced labour has benefited the rich and left the rest with stagnant real wages. In developing worlds, hot money flows have distorted prices of staples, hurting the middle and lower class via volatile inflation. There is a sense that the marginal cost of globalisation has begun to outweigh the benefit. This has left political leaders looking inwards, with sovereignty and common welfare likely the key focuses in the early 2020's, if not the decade.

6. **Rise of moral capitalism**

"The social responsibility of business is to increase its profits" - said Milton Friedman in 1970. 50 years on, a hollowed out middle class across the world disagrees. As inequality grows, the battle of shareholder versus stakeholder has begun and is set to get bigger. Our only surprise is it has taken ten years for this idea to gain traction, since top Wall Street executives responsible for the mess in 2009 were allowed to walk away with multi-million bonuses. Banning stock buybacks, breaking up too-big-to-fail companies and limiting CEO-to-median salary ratios are some popular proposals. ESG and climate change are other hot topics.

7. **Higher fiscal involvement in economic stimulus**

Monetary buffers across the world are thin and some developed economies, notably Japan and the Eurozone, are already in negative interest rate territory. The impact of monetary policy on stimulating growth has also been mixed at best in the past decade. At the same time, inflation is still to rear its head despite many QE programmes. This leaves the onus of further growth stimulus to fiscal policies, in effect enlarging the role of government in the economy. Increased government participation in the economy also lends momentum to the rise of MMT (modern monetary theory).

8. **US budget deficits of over $1 trillion is the norm**

It is hard to believe that not too long ago, then Fed Chairman Alan Greenspan was worried that the US budget surplus would pay off all government debt (that was in 2001). At the end of 2019, the US Congressional Budget Office is forecasting the US budget deficit to average $1.2 trillion in the next decade. Republicans do not want to cut taxes and Democrats do not wish to cut expenditures. The only way to reduce the deficit, therefore, is for extraordinary US growth that allows larger revenue collections at current tax levels, but as discussed in (1), we see slow growth for most of the next decade. An ageing US demographic, rise in interest costs and healthcare spending all add to the challenge.

9. **The gig economy becomes more mainstream**

Into the new decade, the gig economy is vastly different from the one that got a bad reputation during the GFC. While the skilled worker likely holds a full time job and supplements his income with gigs, the less skilled is still able to earn a meaningful income by completing a plethora of jobs instead of fruitlessly hunting for that one single employer. The rise of 5G technology will usher in this change as labour starts to work for apps more than people. This decade might be too soon to call for the end of 9-to-5 jobs, but the trend does look to be leaning in that direction as institutions offload the risk of employment from the organization to the individual.

10. **Income inequality to shape economic policies**

The end of the current decade is marked by an eruption of non-secular protests - Bolivia, Chile, Peru, Lebanon, Iraq, Venezuela, to name a few. Every country has its idiosyncratic seeds of discord but generally people had enough of poor economic conditions, corruption and growing inequality. The modern economy requires a burgeoning middle class. A hollowed out middle class is like a burger without a patty - however you look at it, it is downright unappetising. It is in the interest of politicians and the economy that the middle class remains healthy and the poor gets adequate aid. Without consumption from these two ranks, economic growth stagnates. Narrowing the income gap will be the first step in ensuring economic stagnation does not spiral into social upheaval, although for the likes of many Latin American countries, it is probably too late.

Bonus: the 100-year US Treasury bond

It is simple demand and supply mechanics. The US needs to fund its ever-growing deficit. Investors are hungry for yield. Add into the mix the current low borrowing costs and the increasing life expectancy, it makes sense for Treasury tenors to go beyond its existing maximum tenor of 30 years. We expect many pension funds, whose funding liabilities are increasing due to negative yield bonds, will snap up these century-long bonds. Note that the US will not be first to issue 100-year bonds if it eventually does - the likes of Austria, Ireland and Mexico have already been selling 100-year debt.

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