

BMI releases outlook report for 2011

Business Monitor International's latest report, entitled, World on the Mend: EMs outperform, G7 improving, explains how emerging markets (EM) have withstood the global credit crunch better than their developed world counterparts, and will grow more quickly in the coming year.



According to the report, in 2011, emerging markets real GDP will grow by 5.2% against 2.1% in developed states, with the gap between them narrowing significantly. BMI, country risk specialists, expects 2011 to herald a broadening and deepening phase of the recovery.

The global economic healing process is gaining momentum, and while risks abound as ever, BMI expects the recovery to broaden and deepen in 2011. However, the growth differential between developed and emerging economies will narrow substantially from 2010 as recovery in the US picks up pace and in China slows down.

Key findings from the new 54-page special report:

The US economy will expand beyond expectations in 2011. Resurgent consumer activity, easy monetary policy and recent payroll tax cuts will drive recovery in the US. Whilst in the eurozone fiscal issues are rooted in political rather than economic problems, and closer integration rather than the bloc's disintegration in 2011 is expected. Still, while the core of the monetary bloc will continue to post reasonable growth, the peripheral eurozone will suffer from fiscal retrenchment and household deleveraging.

Strong economic performance is expected across EM. However, rising inflation in EM does present a key risk. For example, our forecast for Chinese growth incorporates a degree of weakness resulting from government tightening measures aimed at cooling the economy. Growth in 'frontier markets', particularly in Africa, will continue to impress.

Commodity prices will remain elevated over the course of 2011. Cyclical commodities including base metals will potentially outperform. BMI sees government policy as a potential risk to supply, particularly with regard to grains if staple food prices remain high in EM.

Political risks will remain elevated driven by budgetary cuts and high levels of unemployment. BMI's main concern for EM is that food price-induced inflation could stir unrest. The possibility of a US/Israeli attack on Iran's nuclear programme represents the biggest geopolitical risk for the next two years.

Equities will be preferable to fixed income investments. Developed state equities have the potential to surprise to the upside versus EM. BMI is broadly neutral on fixed income globally, assuming that monetary policy remains accommodative in the US and euroland throughout 2011, even if tightens in many EM. US dollar weakness will persist versus emerging market currencies.

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